



Findings of Industry Research on Afghanistan
Presentation to Private Sector Development Donor Roundtable
November 2004

OTF Confidential Information

Findings of Industry Research on Afghanistan

Agenda

Meeting Objectives

Overview of the Afghanistan Competitiveness Project

Process Overview – Cluster Selection Methodology

Industry Research:

- **Carpets**
- **Lambskins**
- **Wool & cashmere**
- **Cotton**
- **Raisins**
- **Nuts**
- **Dried Apricots**
- **Marble**
- **Essential oils**

Meeting Objectives

- 1. Overview of Afghanistan Competitiveness Project (ACP)**
- 2. Review cluster selection methodology**
- 3. Present cluster research findings**
- 4. Solicit feedback on choice of potential 2 to 3 priority clusters for National Council recommendation**
- 5. Review opportunities for collaboration and next steps**
- 6. Review opportunities for supporting clusters and 'Natural Capitalism' ideas**

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Overview of the Afghanistan Competitiveness Project

What is the Afghanistan Competitiveness Project?

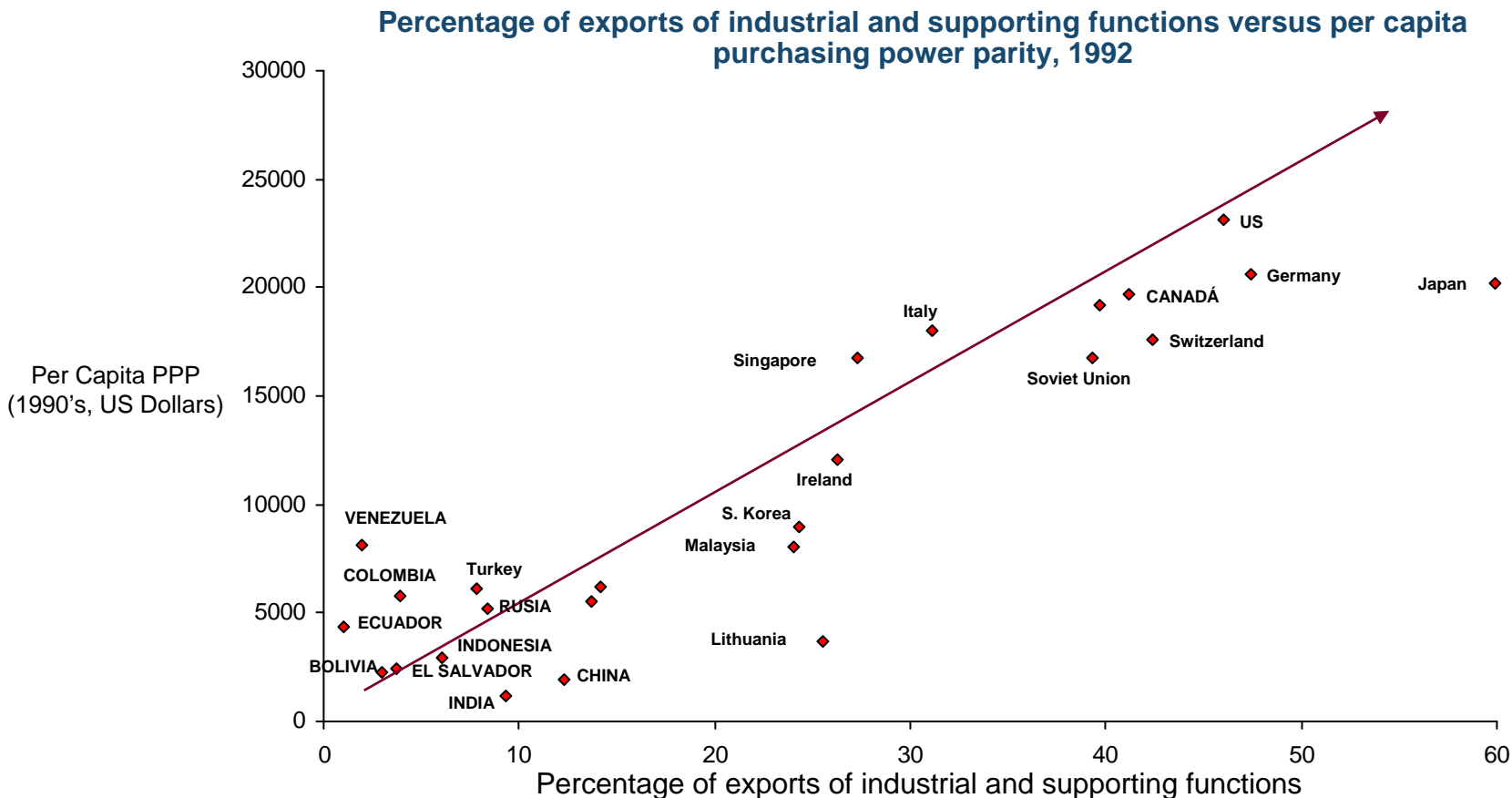
The Afghanistan Competitiveness Project (ACP) is a two-year OTF project that will work with **3 priority clusters** and 2 enabling clusters.

The project is designed to achieve the following objectives:

1. Improve dialogue between the public and private sectors.
2. Create winning business solutions for local industries in regional and global markets, using cluster development.
3. Create a sustainable platform that allows for continuous improvement of Afghan products and services in the global marketplace.

Overview of the ACP

Relationship between complex exports and wealth



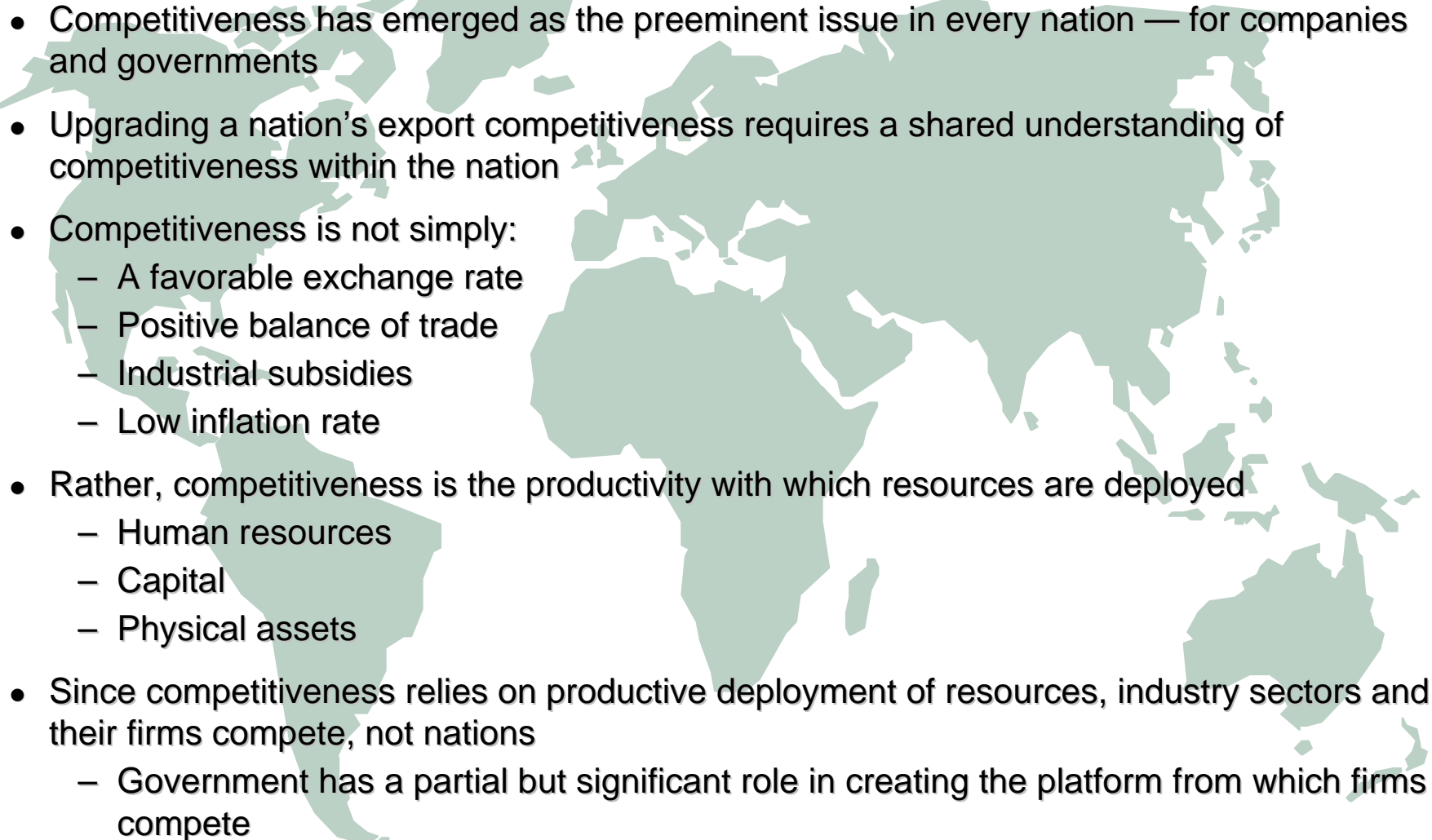
Note: - Purchasing power parity is used in place of GDP in order to compensate for fluctuations in exchange rates.

-The arrow illustrates a correlation of 0.88 between per capita purchasing power and percent of exports of industrial and supporting functions.

SOURCE: UN SITC Trade Statistics Data Revision 2, World Bank, World Tables 1994; Monitor Company analysis

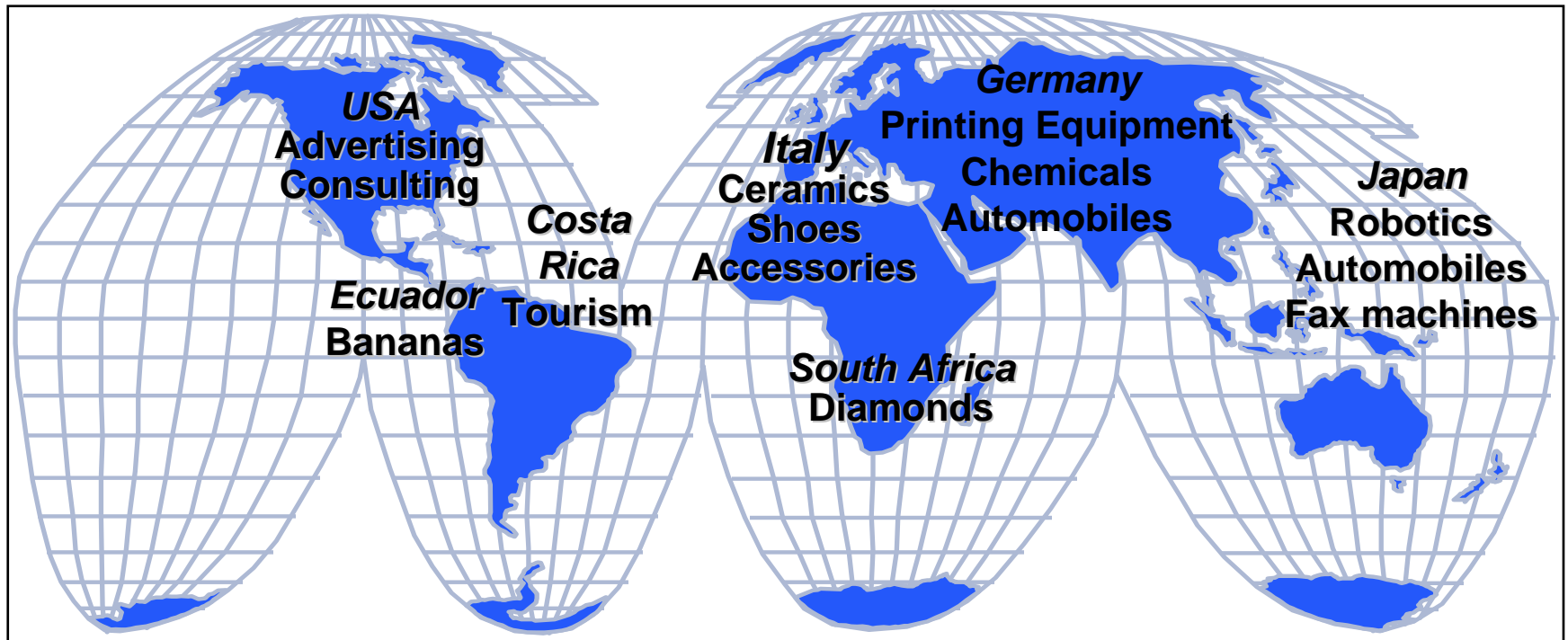
Overview of the ACP

What is Competitiveness?

- 
- Competitiveness has emerged as the preeminent issue in every nation — for companies and governments
 - Upgrading a nation's export competitiveness requires a shared understanding of competitiveness within the nation
 - Competitiveness is not simply:
 - A favorable exchange rate
 - Positive balance of trade
 - Industrial subsidies
 - Low inflation rate
 - Rather, competitiveness is the productivity with which resources are deployed
 - Human resources
 - Capital
 - Physical assets
 - Since competitiveness relies on productive deployment of resources, industry sectors and their firms compete, not nations
 - Government has a partial but significant role in creating the platform from which firms compete

Overview of the ACP

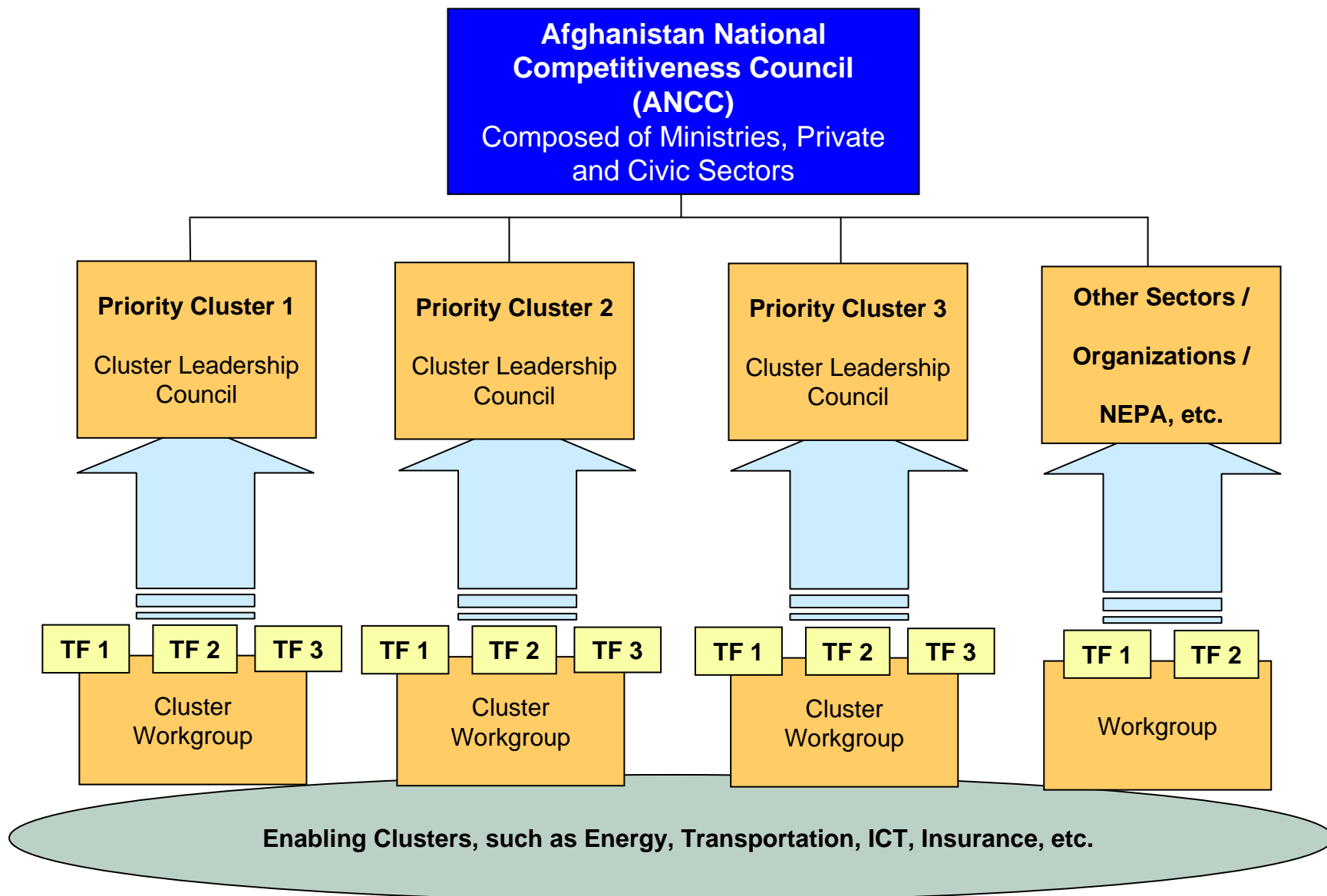
Leveraging clusters to link business, research, and education



- Clusters are geographic proximate firms and organizations with related and supporting industries within a particular field, linked by commonalities and complementarities.
- Close proximity among cluster firms force innovation among successful firms as they compete for their customer base
- Cluster specific institutions of collaboration facilitate information flows among firms and organizations – that includes research centers or universities, which tend to increase the rate of innovation and productivity
- Opportunities arise at the intersection of clusters where a region has strength in two or more industries, and where activity overlaps, such as with pharmaceuticals and new varieties of herbal medicines or fruit

Overview of the ACP

Institutional Framework for Implementation



Overview of the ACP

ANCC Sample Activities

Initiatives reflect objectives of the ANCC and are implemented by joint private, public, and civic sector working groups

Foreign Investment

- Support High Commission of Investment on efforts to increase foreign direct investment (FDI)
 - Determine obstacles with High Commission
 - Commence negotiations with target investors
-

Exports

- Identify globally competitive products and services and develop long-term competitive strategies
 - Accelerate short-term improvements in exports (e.g. agro-industry to regional markets) and longer term high value opportunities
-

Management Capability

- Prioritize focus based on WEF results and national management capability survey
- Work with donor organizations to address training needs

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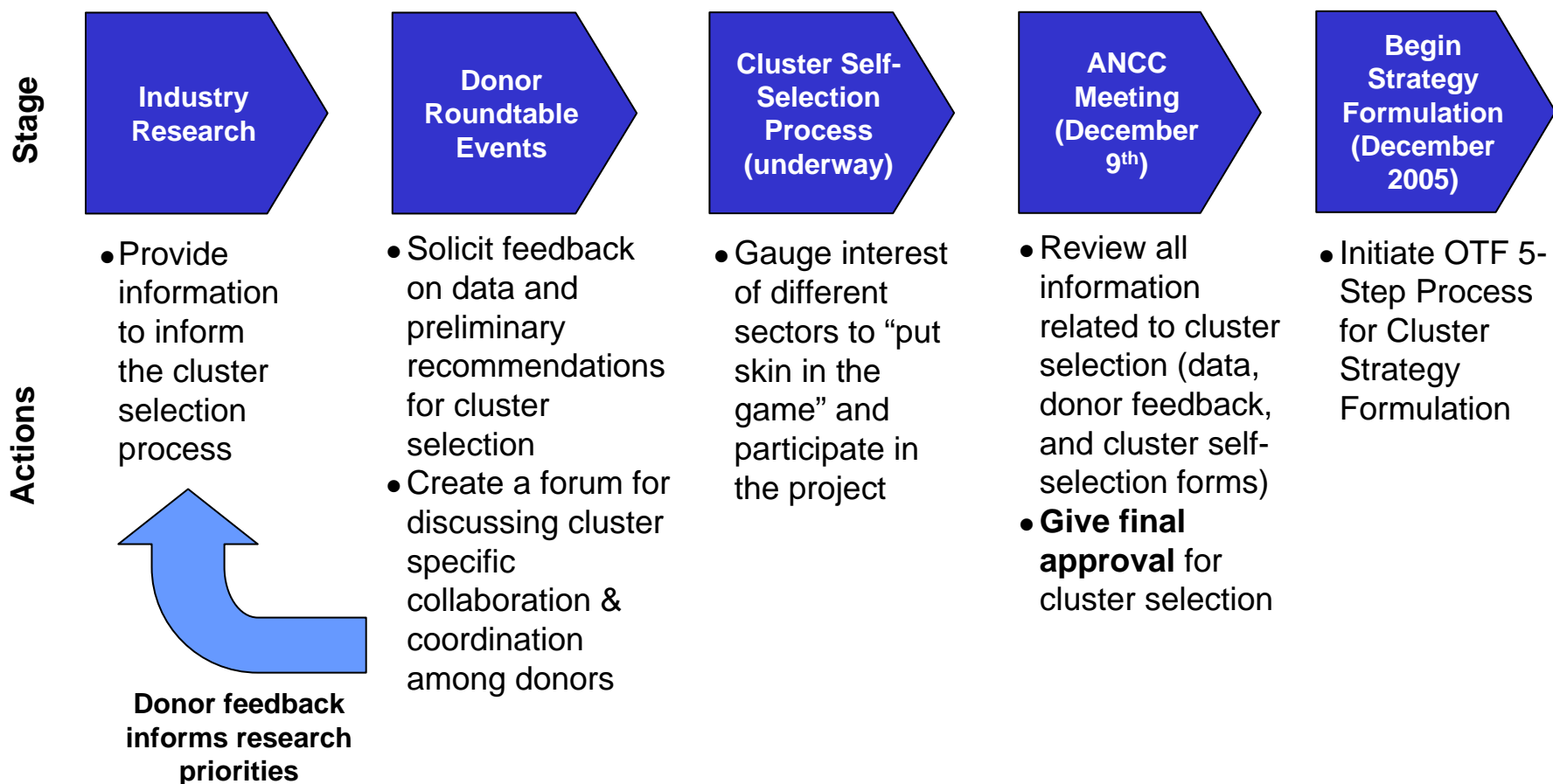
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Process Overview

Selection Process – Stages & Actions

*Data and donor feedback will inform the cluster selection process, but the ANCC has **final decision rights** on the choice of Priority Clusters.*



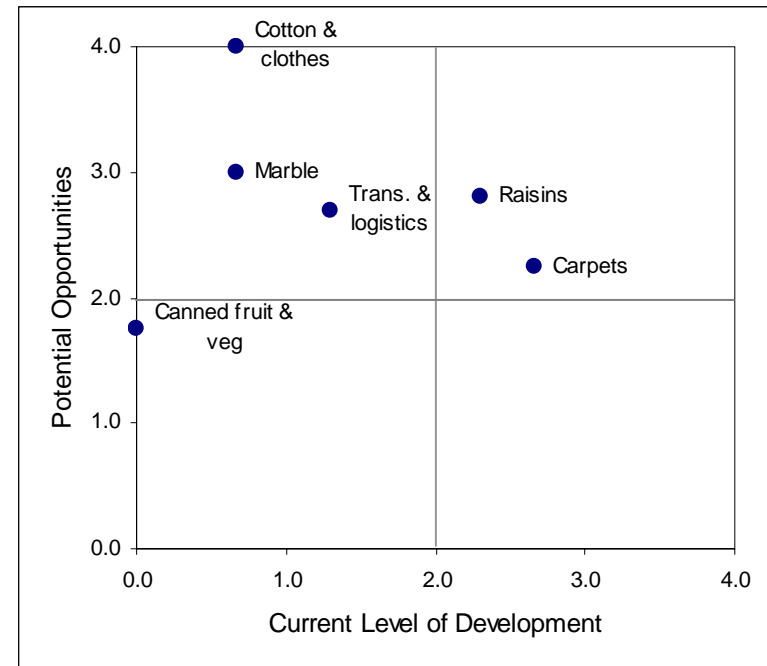
Cluster Selection Methodology

Where we left off...

- Objectives of first Private Sector Development Donor Roundtable meeting on 15 September:
 - Initiate process to share information on private sector development among donors and other organizations.
 - Review of key business sectors in Afghanistan and opportunities they provide for economic development.
 - Identify opportunities for collaboration.
- Based on meeting outcome and preliminary research conducted by OTF, various sectors were mapped out relative to each other based on:
 - Base / Size
 - Growth
 - Value-add
 - Branding
 - Receptivity.

Initial Analysis

Relative positioning of initial industry list based on Roundtable discussion and background research



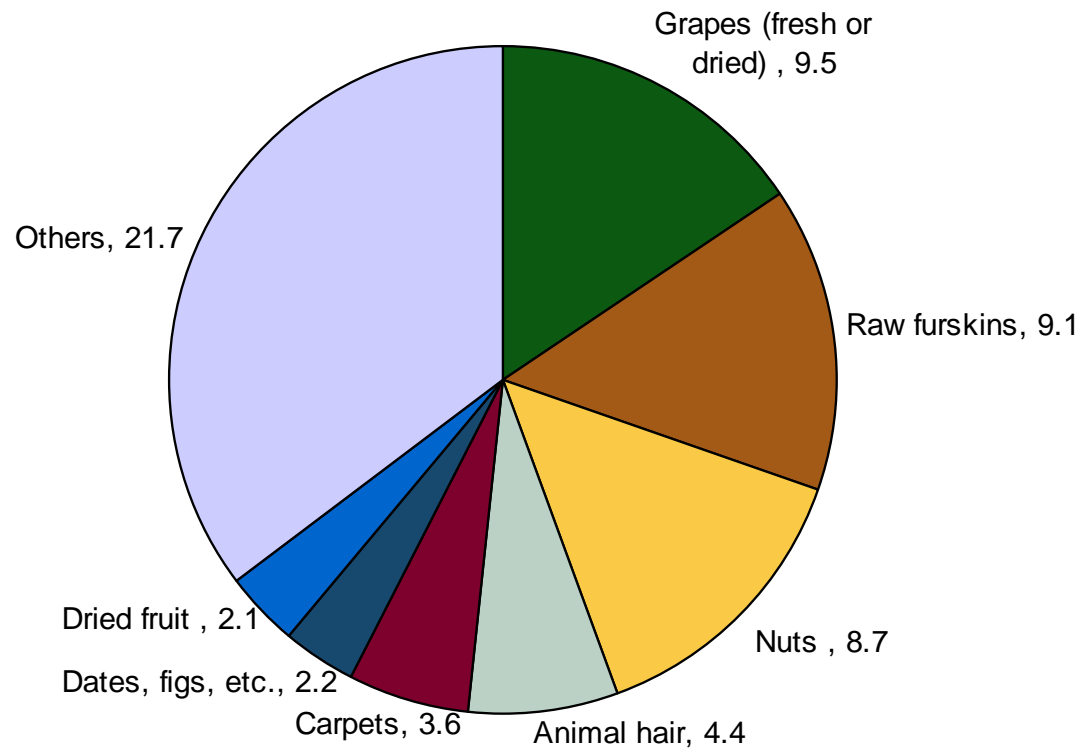
Cluster Selection Methodology

Same approach, slightly different sectors

The first assessment of export potential was done by using USAID Trade Map data to identify Afghan sectors with more than \$1 M in exports.

Afghanistan's Top Exports by Value

Total: \$61.3 Million (2002)



Cluster Selection Methodology

Relative positioning

The export data was complemented by sector reports and primary OTF research with business owners, government, and donor representatives.

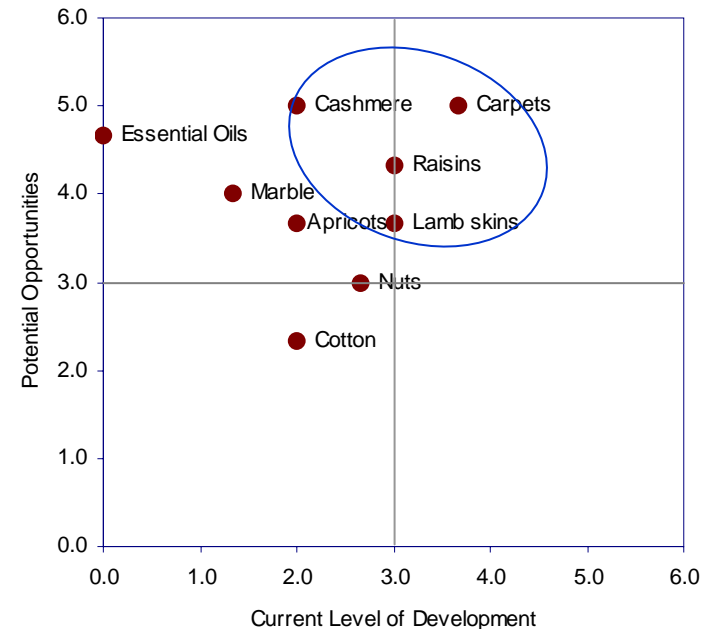
Based on the same 5 core selection criteria – Base/size, Growth, Value-add, Branding, Receptivity – the relative positioning of the new potential clusters were mapped out.

The main focus of this presentation is to:

1. Make a case for relative positioning of potential clusters
2. Solicit feedback on findings and conclusions
3. Plan for ways to move forward on collaboration.

Current Analysis

Relative positioning of new potential cluster list based on recent OTF research and analysis



Research Findings

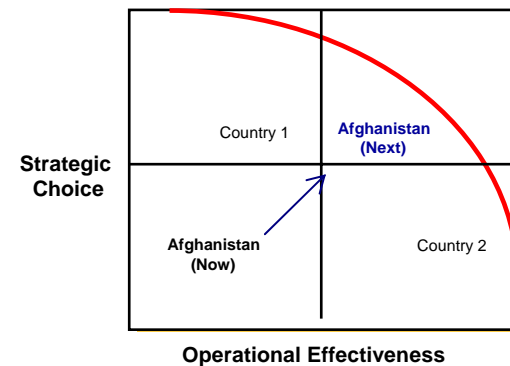
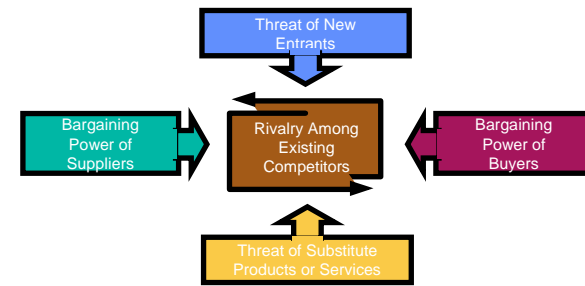
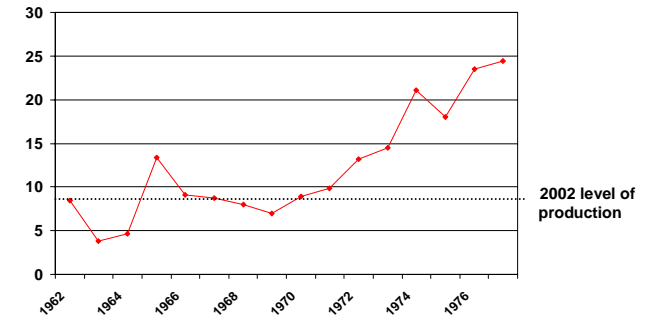
Presentation Structure

- Research was conducted on the following industries:

Carpets	Lamb skins
Wool and cashmere	Cotton
	Nuts
Raisins	Marble
Apricots	Essential Oils

- Basic structure to presentation of findings:
 - Summary
 - Product introduction
 - Strategy, Positioning and Sustainable Advantage
 - Assessment of industry opportunities based on 5 core assessment criteria

Historical Export Levels



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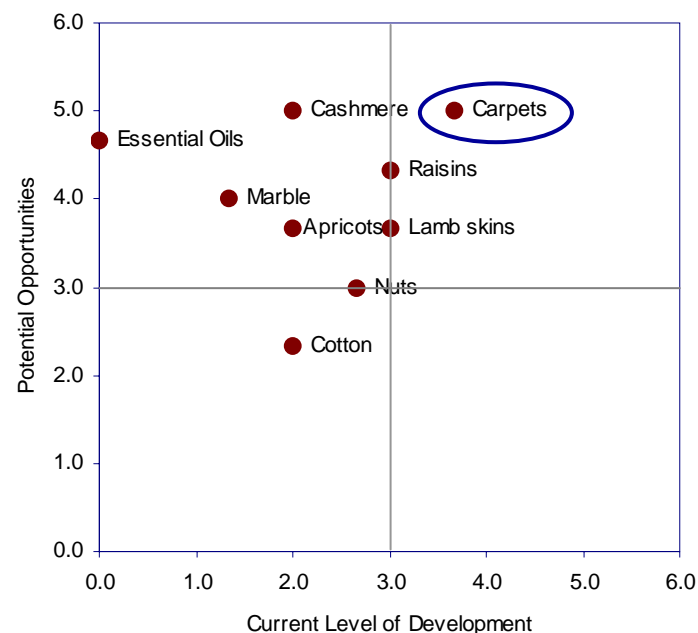
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Summary: Afghan Carpets Industry

Afghanistan can capture 2-5 times more value by trading closer to the end customer and not sending uncut / unwashed carpets through Pakistan. This will allow it to relaunch its brand, after which it can then invest in building the brand based on high quality, all-Afghan inputs throughout the production process.

Base/Size	Afghanistan has a strong base from which to build, officially exporting \$3.4M but estimated to be much higher – between \$10-40M currently
Growth	Repatriation of production from Pakistan alone could lead to further growth of \$18-26M
Value-add	Increased processing and trade could lead to increased value capture of 2-5 times more than current levels
Branding	Relatively novel brand that will require complete quality assurance across value chain to fetch premiums
Receptivity	Sector has positive history of change and is already making highly customized carpets



World Rug Market

- Total world value: \$1.5 B; Afghan exports reported at \$4.5 M, but likely to be many multiples higher, with undeclared exports going through Pakistan.
- Value dominated by knotted carpets over kilims (breakdown marginally more for kilims than global average).
- Vast majority of Afghan carpets and kilims are exported to Germany.

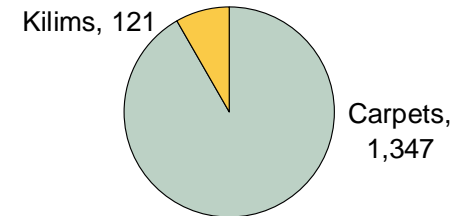
Carpets

- Knotted pile on a woven backing.
- More unique, higher value items. Main quality distinguishers are:
 - Pattern
 - Dyes
 - Fibers
 - Number of knots

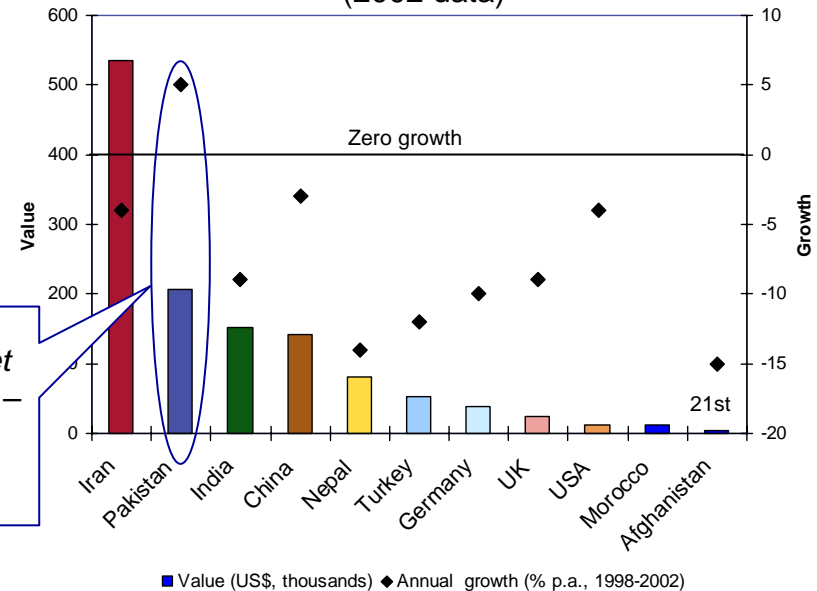
Kilims

- Woven.
- More of a commodity product

Global value share of Carpets & Kilims (US\$ M)



Top 10 Carpet Exporters plus Afghanistan (2002 data)



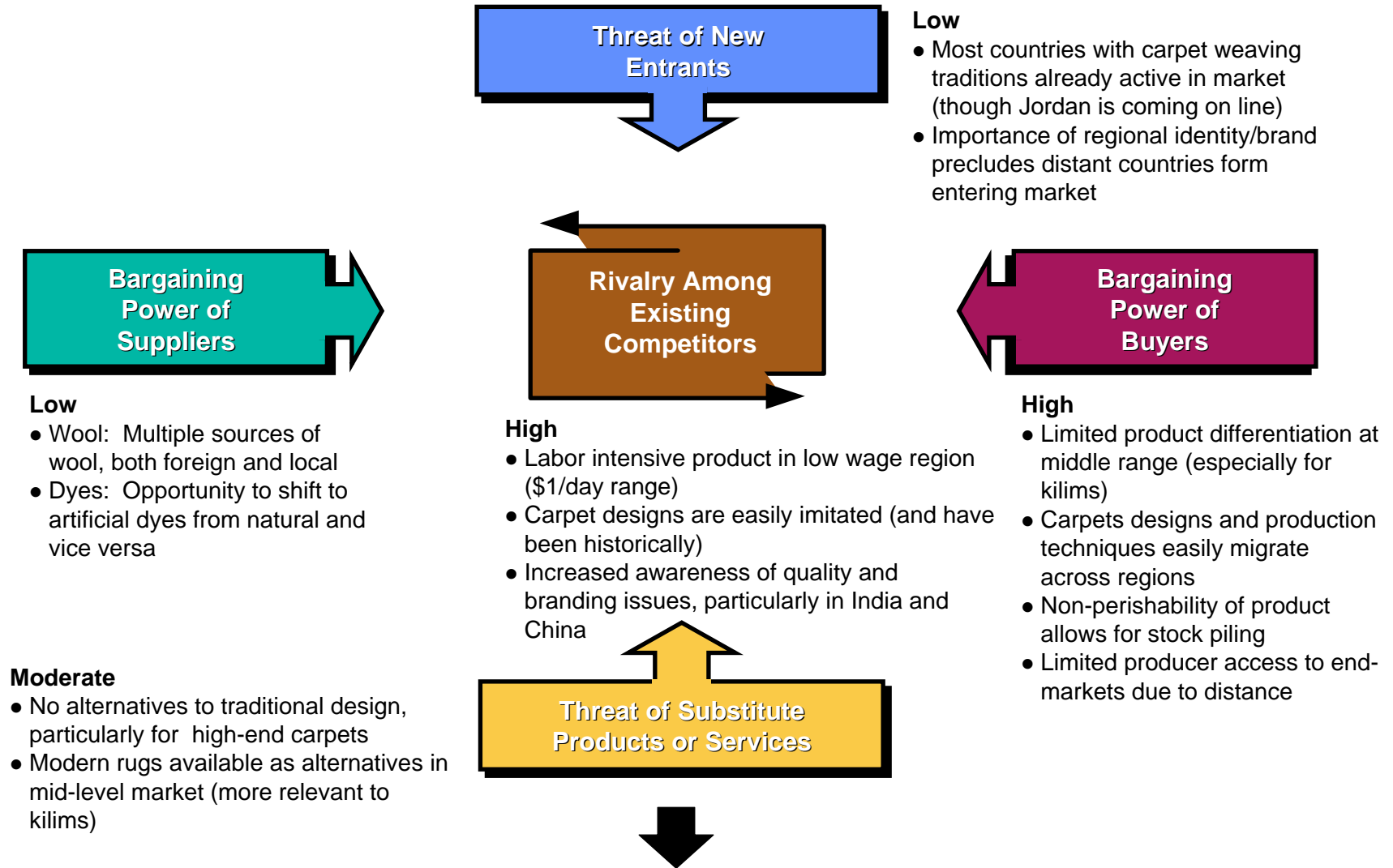
Only Pakistani carpet exports grew in 2002 – of which 60% were made by Afghans



Carpets dominate share of value; kilims display signs of being a commodity item.
Iran dominates the full range of rugs

Strategy, Positioning and Sustainable Advantage

Carpet Industry Dynamics



The market is highly competitive, with high design mobility, but there are differentiation opportunities at higher ends of the market. This will require aggressive branding.

Afghan Carpets Industry Opportunities

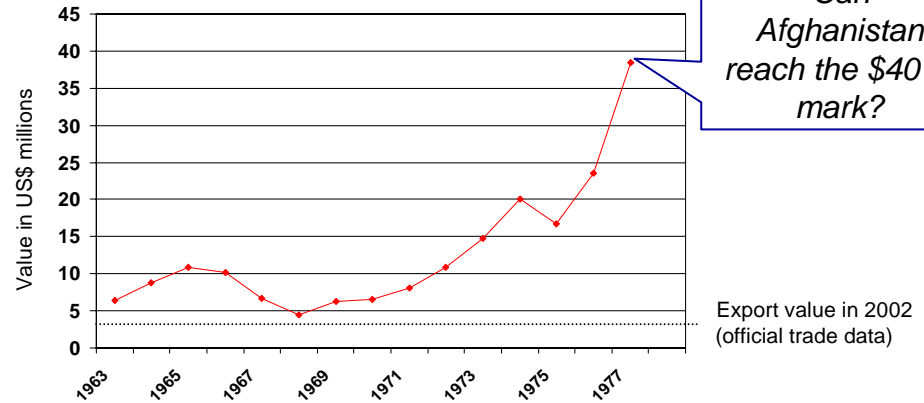
Base/Size

- \$1.4 B world-wide; official 2002 Afghan export figure of \$3.5 M.¹
- Afghan exports likely to be many multiples higher – between \$10M - \$40M.
 - Lower estimate: Andkhoy alone – one of 4 main centers in the north – estimated to export \$2.5 M [4 x 2.5 = 10M].²
 - Higher estimate: Since 2002 30% of Afghan production in Pakistan – which makes up 60% of the total (i.e. \$124M) – has returned to Afghanistan [base of 3.5M plus 30% of 124M = 40M].³

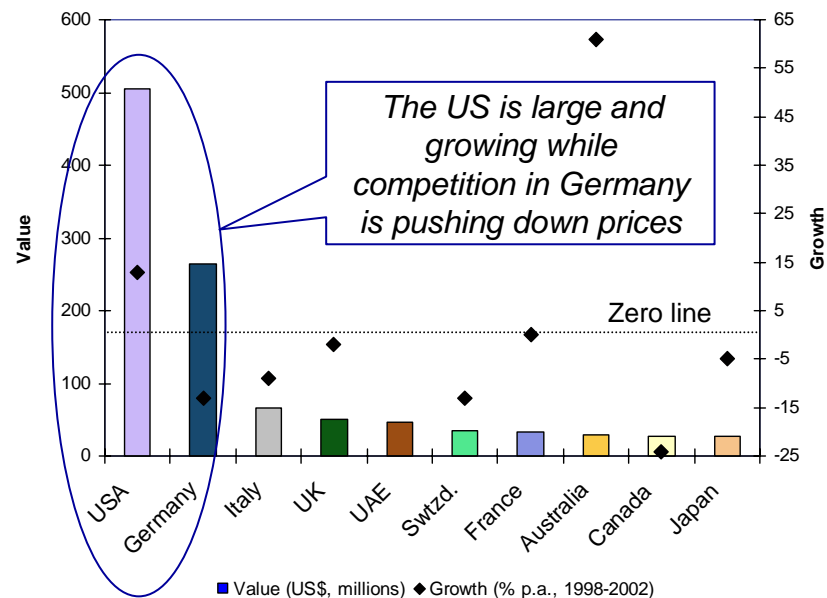
Growth

- Industry could increase by between \$18M - \$26M in the next couple of years based on repatriation alone (based on current repatriation trends and value capture of between 70-100% of Pakistani production)
- Un-tapped opportunity in US market:
 - largest buyer (almost 2x Germany)
 - price premiums exist
 - consumer-base likely to be socially/politically responsive to Afghan products.
- Threat of Indian and Chinese competition for future growth in middle ranges.

Historical Carpet Export Levels



Top 10 Carpet Importers plus Afghanistan



1. USAID Trade Map; carpets only, does not include kilims

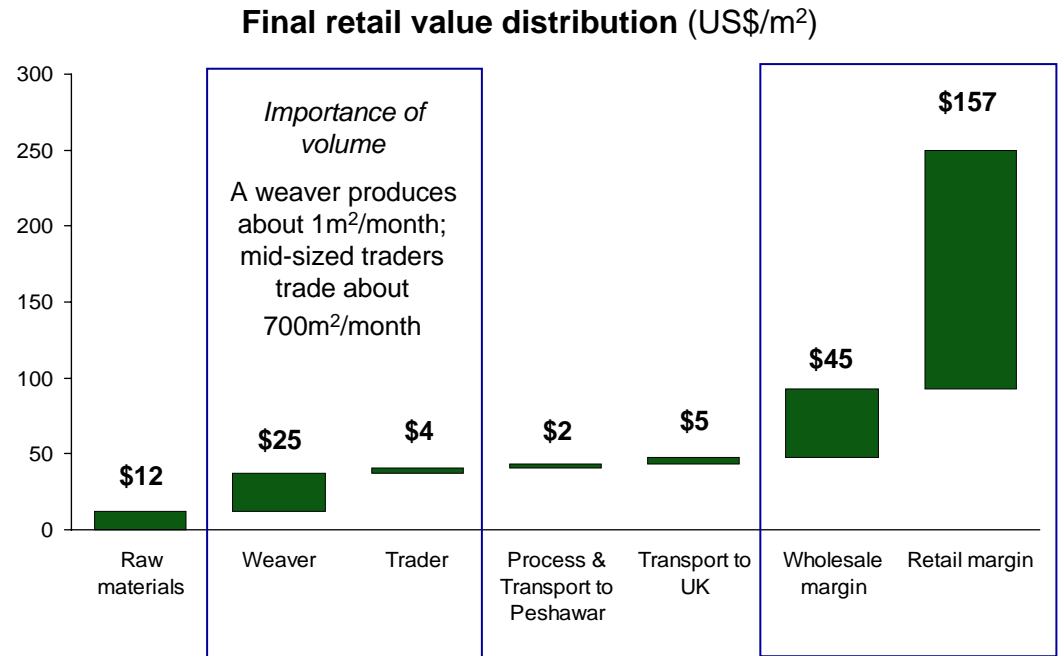
2. Derived from data from AREU, *Case Study of Carpets and the Andkhoy Carpet Market*, 2004.

3. Derived from estimate from Pakistan Carpet Manufacturers and Exporters Association.

Afghan Carpets Industry Opportunities

Value Add

- Low-wage, labor-intensive, traditional product.
- Greatest value capture happens closest to end consumer by:
 - traders who transport their product to export markets in Pakistan
 - wholesalers in foreign markets
 - final retailers.
- This requires considerable forward integration into distribution and sales; therefore more cutting and washing done in Afghanistan.
- How to ensure value flows down to weavers to:
 - move them above \$1-a-day poverty &
 - improve working conditions?



Highest value exists closest to end customer. This will require substantial forward integration into sophisticated wholesale and retail markets.

Afghan Carpets Industry Opportunities

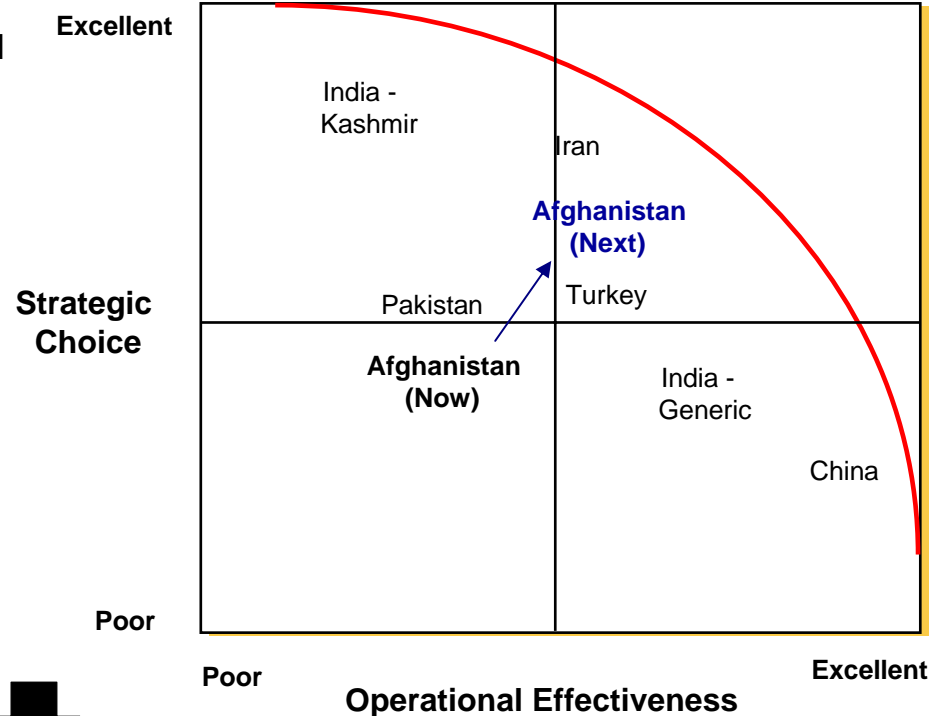
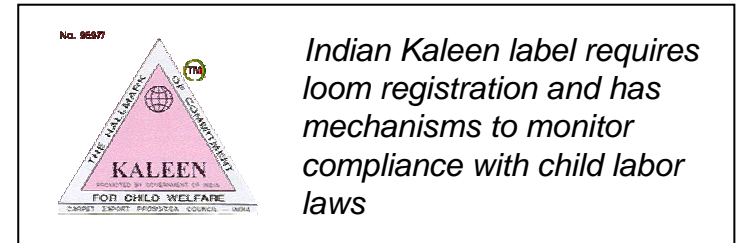
Branding

- Opportunity capitalize on brand novelty and recent spot-light on Afghanistan, but Iran will continue to enjoy prestige of fine carpets.
- Challenges:
 - build unique brand in region where designs and weaving techniques are highly mobile (e.g. 'Indo-Persian', 'Sino-Persian').
 - labor issues in terms of 'weaver wear-down' and use of children.

Receptivity

Likely to be high due to:

- History of change, such as recent revival of natural dyes with *Chob Rung* and others types of carpets.
- Strong customer focus with custom-made carpets. However, multiple middle-men/traders dampen information flow between producers and customers.
- Substantial control of quality and patterns by traders, despite decentralized household production. Therefore, focal points for change efforts are well concentrated.
- Excellent window of opportunity as production re-establishes in Afghanistan after >20 years of being done in Pakistan.



Opportunity to leverage the novelty of the product to build brand. Quality and originality assurance along complete value chain will be required.

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- Nuts

- Dried Apricots

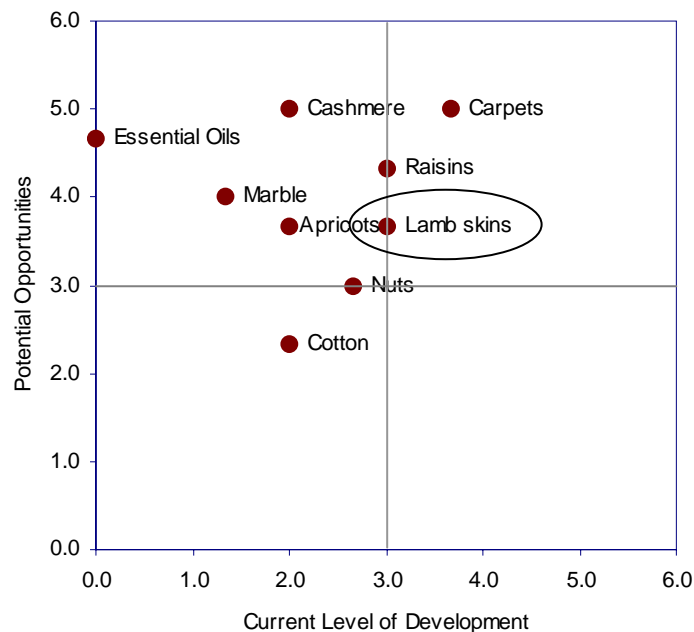
- Marble

- Essential oils

Executive Summary

Afghan Karakul & Broadtail Industry (Lambskins)

Base/Size	\$9.2 million in exports, 10% of Afghan exports; Afghanistan may comprise up to 25% of global karakul production
Growth	3.8 million sheep are currently out of the production system (up to \$7 million in pelt value)
Value-add	Improved herd control can improve pelt prices, while forward integration to manufacturing can capture more value
Branding	Country brand will not be important in auction system; karakul is considered especially inhumane even among furs
Receptivity	Traditional industry in the north; drought has left farmers risk averse; neighboring countries' successes can be leveraged



Karakul & Broadtail Industry

General Information

- “Karakul” one of the largest fur categories and includes:
 - Broadtail: Fetal fur
 - Karakul: Newborn fur
- Karakul sheep breeding originated in Bukhara as an especially tough and hardy breed able to forage and withstand great hardship
- Production is centered in Central Asia and South Africa, with a bit in the U.S.
- The Karakul fur trade dates back to 1400 B.C. and is currently used by most famous fashion designers in various products:

Designers

- Gucci
- Dolce & Gabbana
- Karl Lagerfeld
- Christian Dior
- Fendi
- Ralph Lauren
- Givenchy, etc.

Products

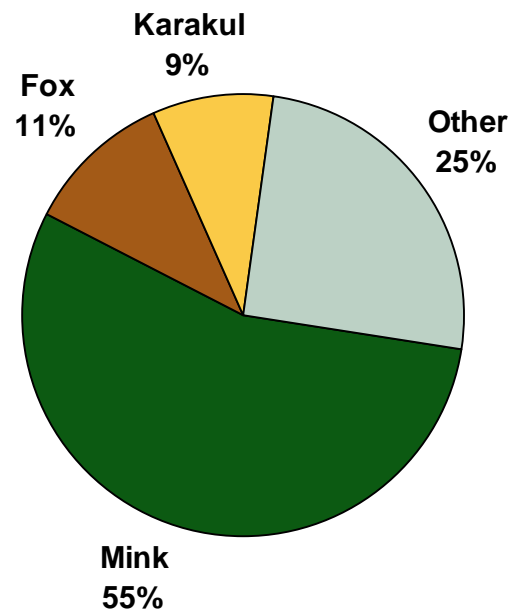
- Coats
- Hats
- Lining for coats and footwear
- Full outfits (skirts and tops)

- After a dip in the 90s, fur has been coming back in recent years



Fur has been rebounding in recent years and karakul is around 10% of the industry

**World Market Production:
45 Million Pelts¹**



“Fur from minks, foxes and Persian lambs constitute the cornerstone of the global fur industry.”

- Business Weekly, January 2004

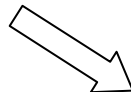
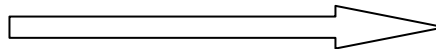
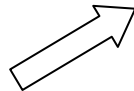
Karakul & Broadtail Industry

General Information

“A typical Karakul sheep, during its lifetime of 14 years, gives enough wool to produce a 3X2 meters museum-quality carpet, worth at least US \$ 1700...; enough calves to make a medium-size fur coat that would sell for US \$ 15000 with Christian Dior label... At the end of a very useful life, [it] jumps into a very large pot over an open fire, producing quantities of Pilof (Pilau) or Karachorba (black soup) to feed a small wedding party...”

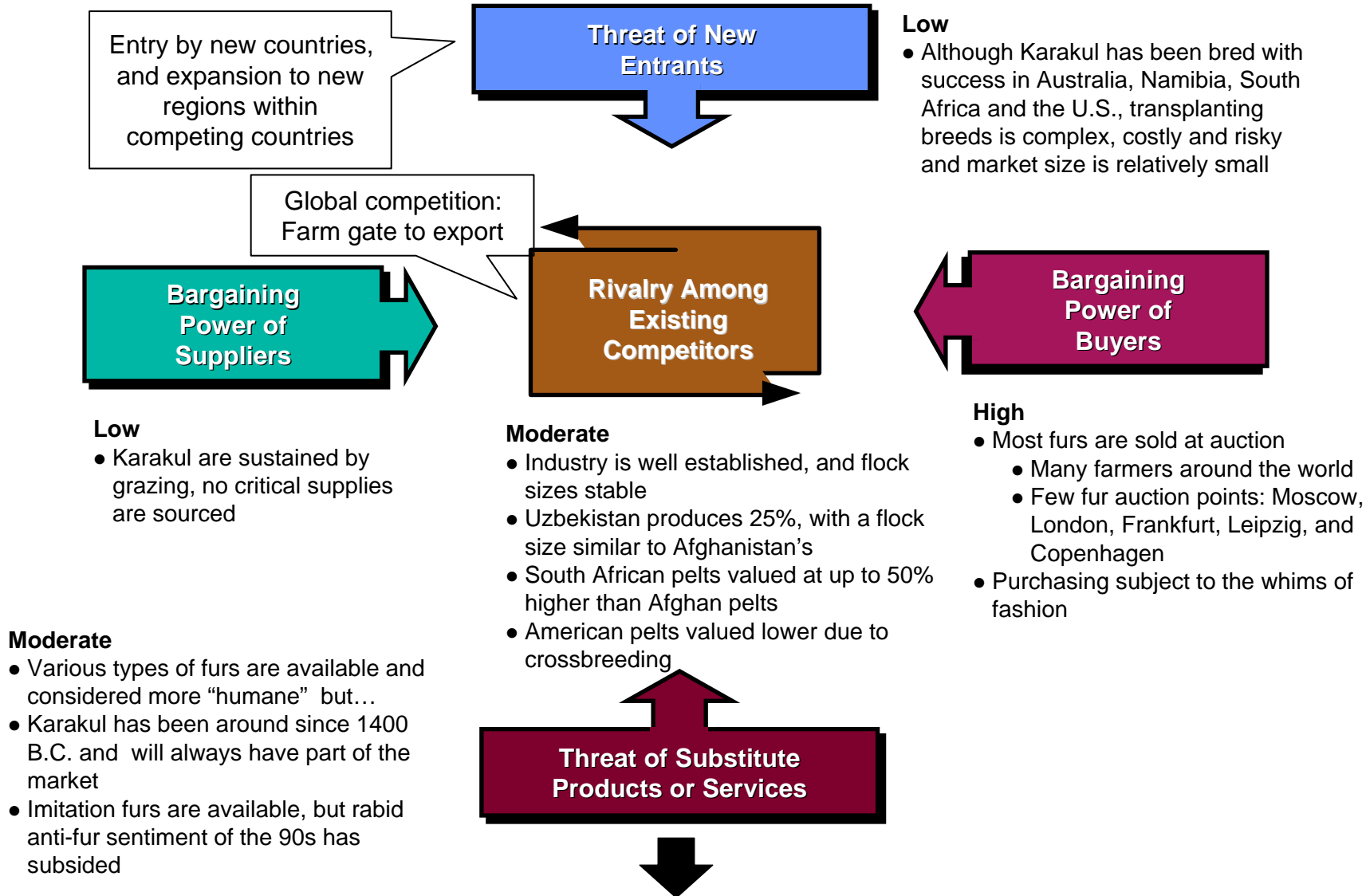
“Able to survive on scant vegetation and little water, Karakul offers an astonishing cost-to-profit ratio.”

- News Central Asia report 26 Oct, 2003



Strategy, Positioning and Sustainable Advantage

Afghan Karakul & Broadtail Industry



Niche market with established place in fashion industry, will continue to be profitable

Industry Opportunities

Afghan Karakul & Broadtail Industry: Base/Size & Growth

Drought has decimated flocks and war made sourcing difficult, however Afghanistan remains an important player in the world market

- Afghanistan exports \$9.2 million in karakul annually
 - Uzbekistan has 25% of world production with flock size similar to Afghanistan's
- Production is traditionally carried out only in the north (near Bukhara) with a flock size of 5 million sheep
- 3.8 million additional sheep available for Karakul pelts throughout the country
 - Could mean up to \$7 million in production
 - May require new production facilities
- Fur industry experiencing a revival:

"At the most recent runway shows in New York, Paris and Milan it was clear that fur has become a fashion requirement."

- Keith Kaplan, Fur Information Council of America

Afghanistan Livestock Statistics

	1981	1995	2003
Sheep	18.9 million	22 million	8.8 million

World Pelt Production

	<u>World Karakul/ Broadtail Production</u>	<u>World Fox Production</u>	<u>World Mink Production</u>
2003	4 million (est)	5 million	32.5 million
1990s	4-5 million	2.5-4.9 million	21-29 million
1980s	7 million	3.7-5.8 million	30-42 million

Low production in Afghanistan may be depressing overall Karakul production

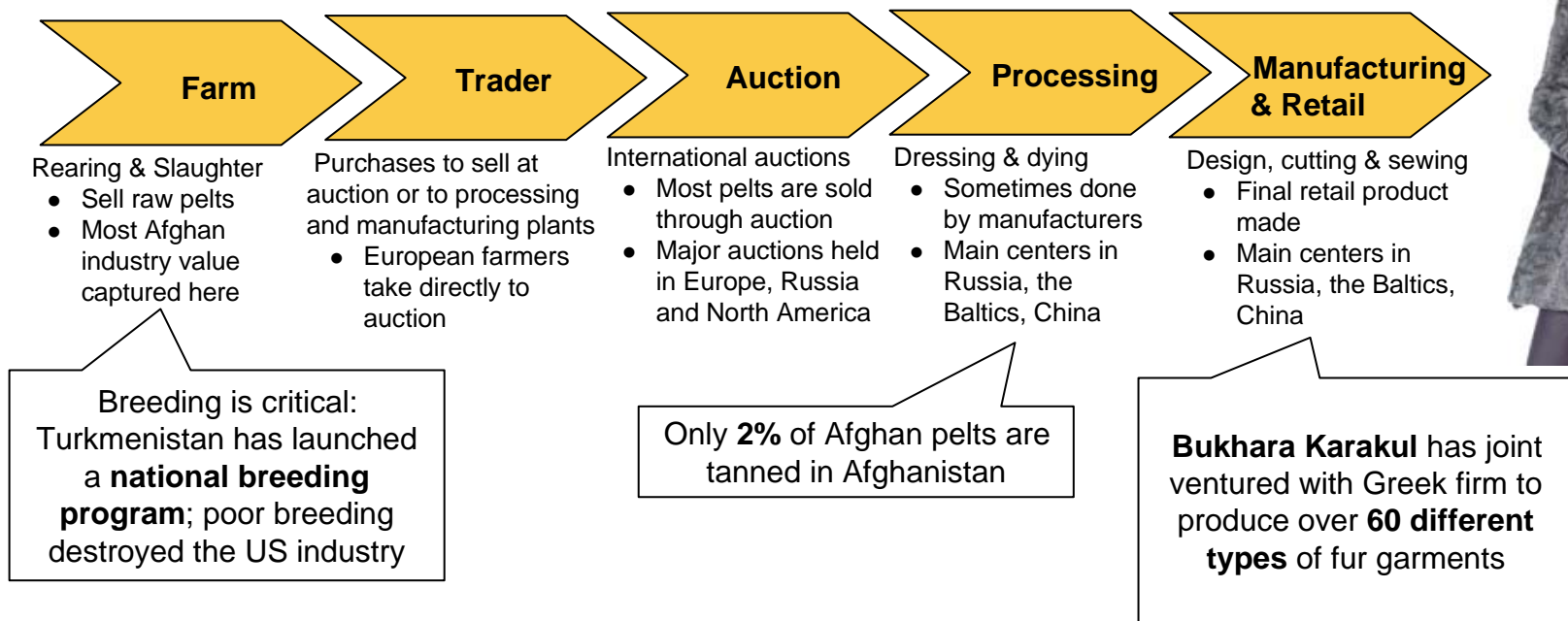


External factors have depressed Afghan production, but there is potential for a turnaround and for increased production by better utilizing the existing herd

Industry Opportunities

Afghan Karakul & Broadtail Industry: Value Add

From Sheep To Fur Coat: The Fur Value Chain



Price per pelt

Broadtail:

Auction

\$24-27

Retail

\$480-1000

Karakul:

\$10-14

\$200-480



Pelts sell at auction at a fraction of their value in a designer coat, forward integration is key to capturing more value in this industry – can we capture value beyond auctions?

Industry Opportunities

Afghan Karakul & Broadtail Industry: Branding

- Auction market with knowledgeable buyers trades on quality – consumers know very little
 - Better pelt = more money
 - Brand means little
- Fur sells itself and Afghanistan and Central Asia are known for karakul, but...
- Even among the types of fur karakul is considered inhumane:
 - Broadtail is made from the furs of fetuses up to 30 days from birth – the mother is killed before the fetus is aborted
 - Karakul is from lambs no more than 3 days old
 - The meat is thrown away

"As cruel and ugly as it is for minks and foxes both, it is nothing approaching this level of cruelty... I don't believe that any consumer with any bit of humanity or conscience could know how this product is made and then wear it"

-Rick Swain, Humane Society Chief Investigator, *Dateline NBC* interview
(Bloomingdale's department store pulled it's karakul fur after the show)



Fur is popular despite the backlash of the 80's and 90's, however, karakul is especially vulnerable to cruelty and associated bad press. A donor project will be apt to receive criticism.

Industry Opportunities

Afghan Karakul & Broadtail Industry: Receptivity

Receptivity:

- Tradition in the north, may not catch on in the rest of the country
- Flocks are small, and farmers risk averse, improvements (e.g. selective breeding) will have to be done at a higher level than the farmer
- Show them the \$\$\$
 - Uzbeks are having great success a few miles across the border
 - Turkmen are revamping their industry
 - South Africans get premiums for their pelts



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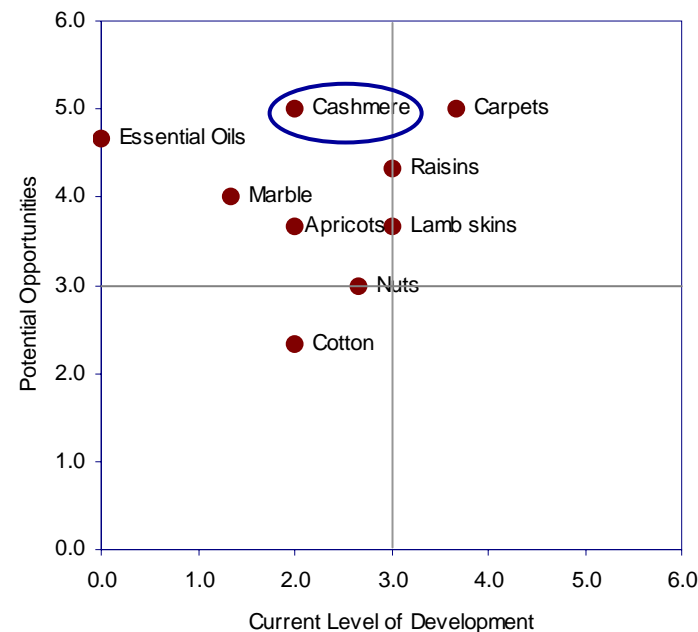
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Summary: Afghan Cashmere Industry

Afghanistan is facing a cashmere trade deficit. Meeting local needs for more processed cashmere products will help Afghanistan's balance of payments while providing a migration path towards entering export markets.

Base/Size	Fourth largest export at \$4.3M
Growth	Recent decline in exports – likely result of drought in Afghanistan. Future Afghan value growth should primarily come from increased cashmere processing
Value-add	Value is being given away – Afghanistan's cashmere imports are almost 2x higher than its exports
Branding	Meeting local demand provides good migration path towards building international brand
Receptivity	Blank slate from which to work – almost green field



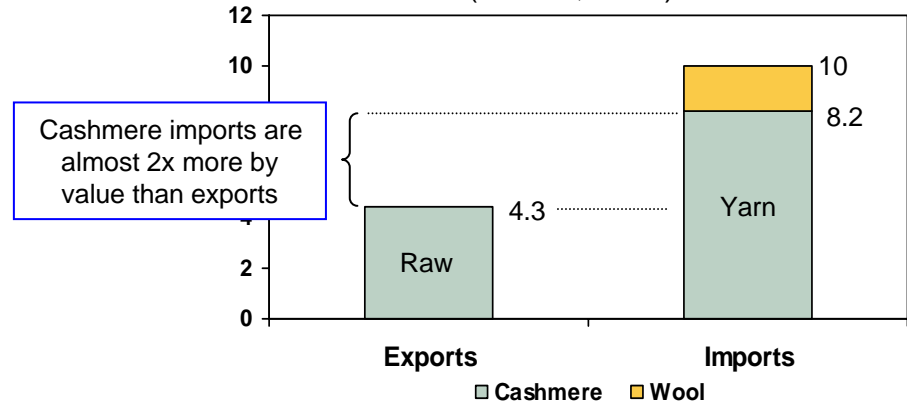
Global Wool and Cashmere Markets

- Range of products from shorn wool that is not carded or combed, to yarn, to woven products.
- Included are cashmere products, which are make up the bulk of Afghan trade.
- Afghanistan imports almost twice as much cashmere products than it exports (by value).
 - Main export: uncombed/uncarded cashmere to Belgium (>95% of total).
 - Main import: cashmere yarn from Iran (>95% of total).
- Italy, Japan, UK and Hong Kong are big cashmere importers.
- China plays on both sides of the fence, dominating the export market for semi-processed and processed cashmere.

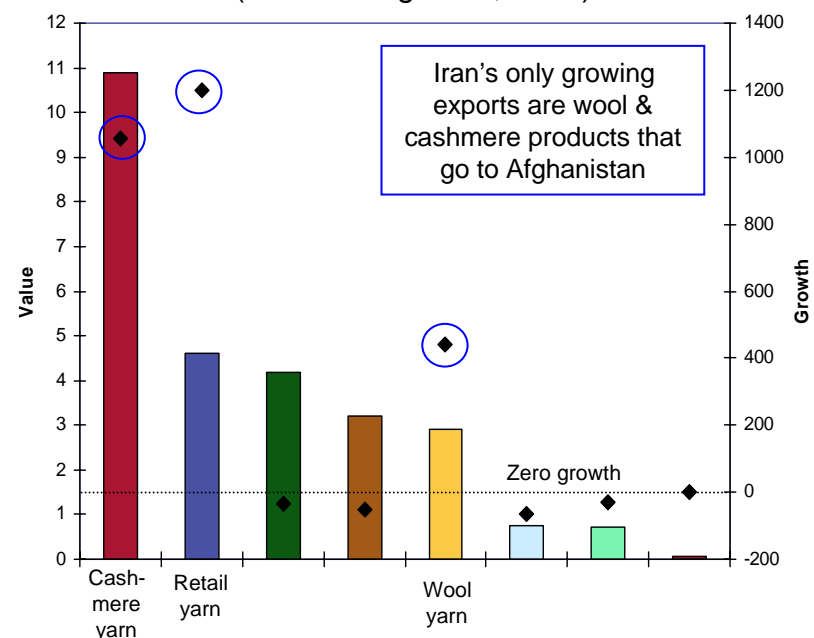


Afghanistan is facing a trade deficit in cashmere – to Iran's benefit – despite being an exporter of unprocessed cashmere hair

Afghan wool and cashmere exports and imports
(US\$ M, 2002)

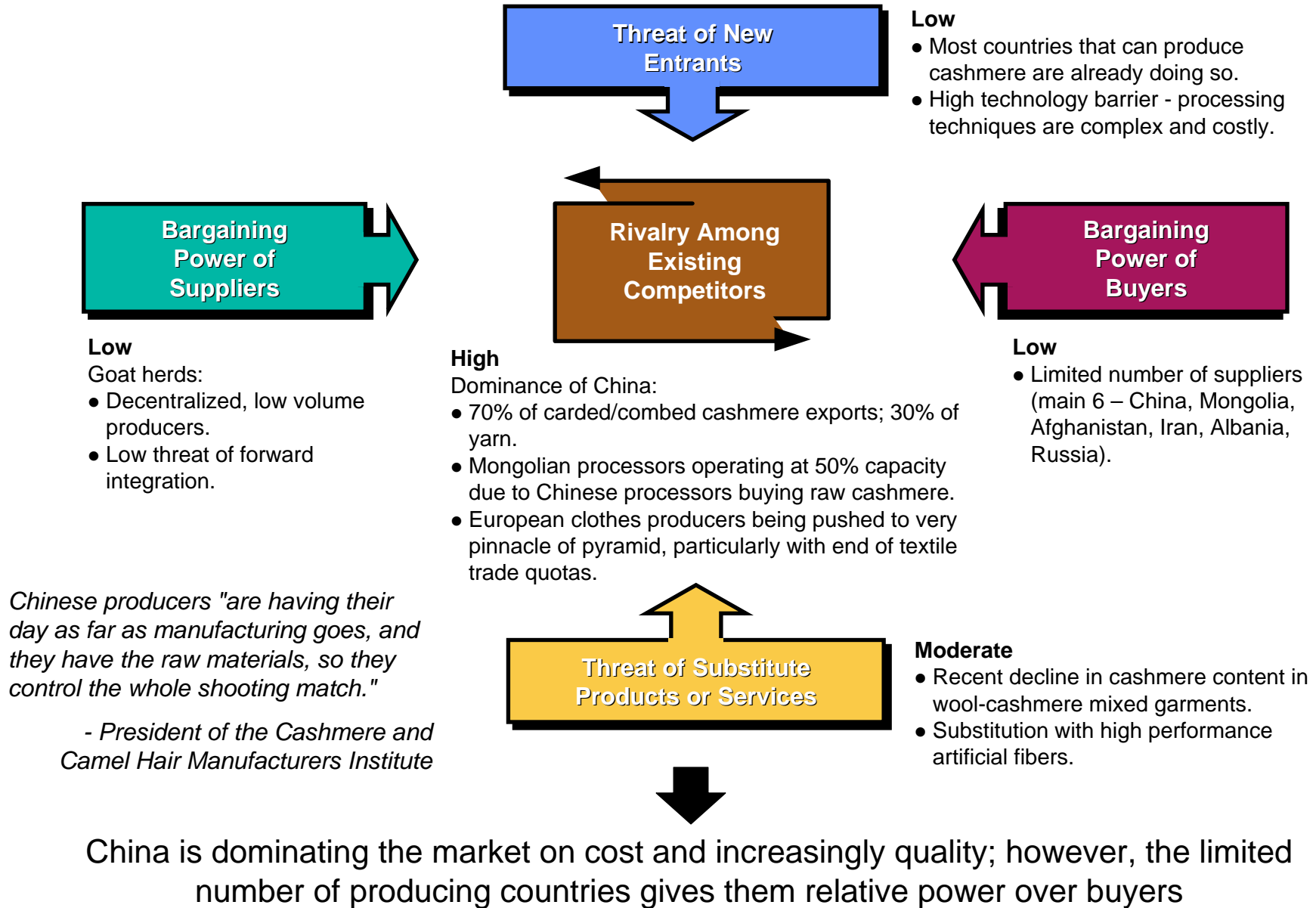


Iran's wool and cashmere exports
(Value and growth, 2002)



Strategy, Positioning and Sustainable Advantage

Global Cashmere Industry Dynamics



Afghan Cashmere Opportunities

Size/Base

- Uncombed/carded cashmere is Afghanistan's 4th largest export at \$4.3M.
- Likely to be lower than previously due to recent decline in herd size due to drought.

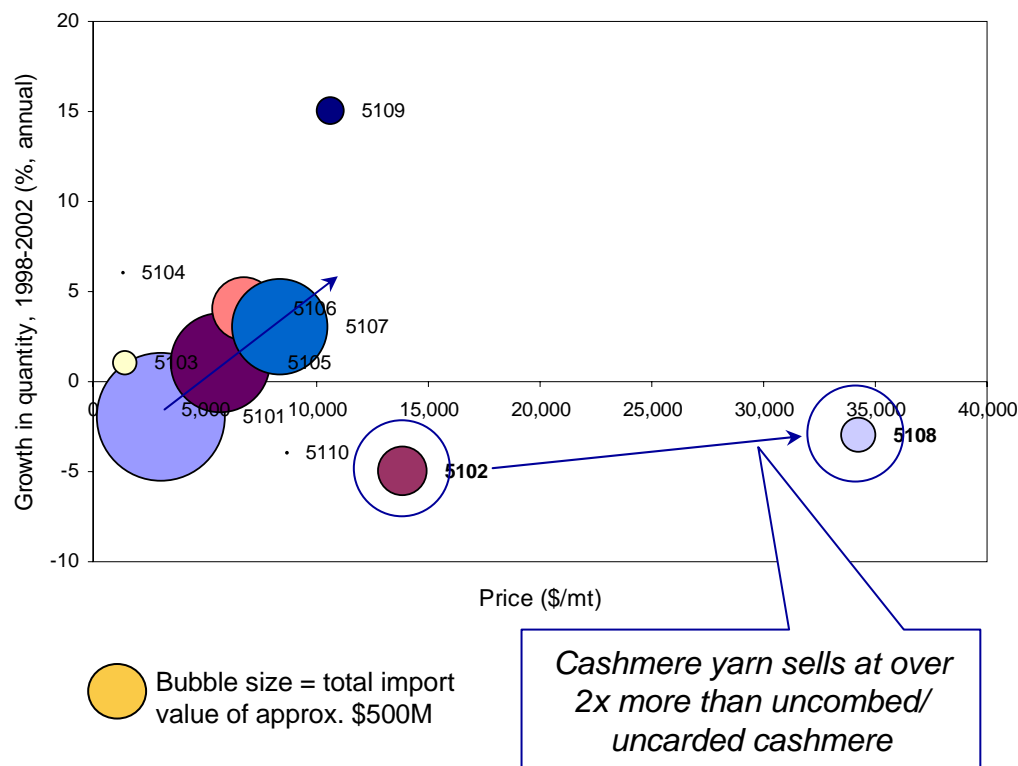
Growth

- Trade data shows recent decline in quantity – mainly driven by steep declines in Afghanistan and Belgium.
- Herd size recovery likely to increase cashmere production.
- More important opportunities for growth in value-added products. Most immediately this can play an important import substitution role.

Value Add

- Agricultural product with virtually no value-add at present – among the least processed of the animal hair trade category.
- Cashmere commands a price premium. The yarn sells at greater than 2x the price of the uncombed / uncarded product.
- Local consumption provides a good migration path to exporting more processed products.

Global Wool and Cashmere Imports
Higher growth and price premiums with increased processing



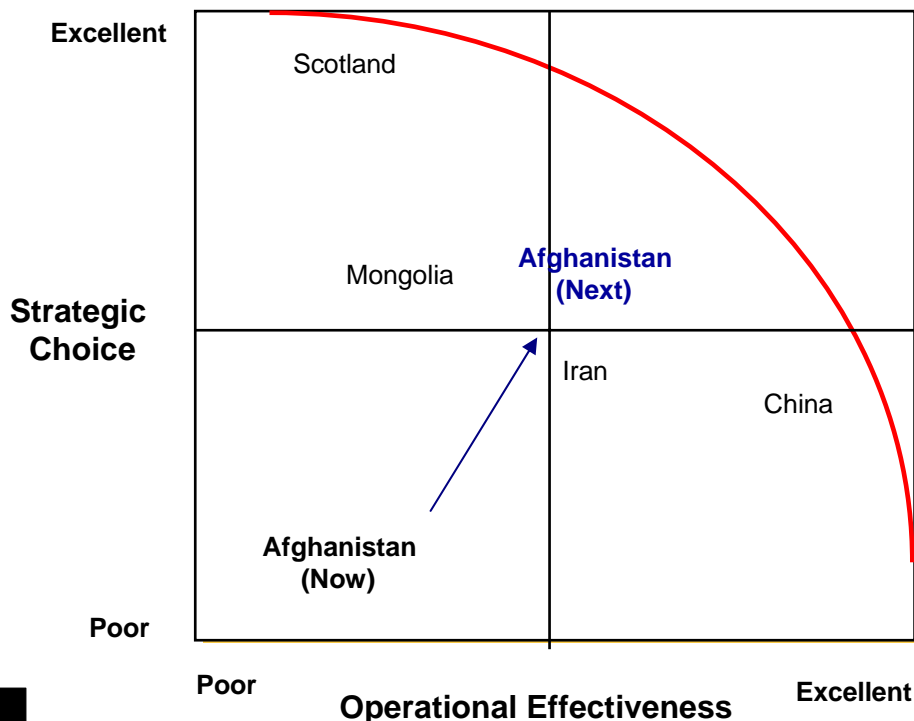
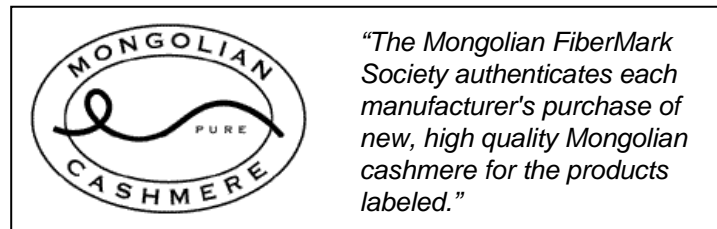
Afghan Cashmere Opportunities

Branding

- Opportune moment to take advantage of high profile of pashmina products.
- Potentially strong synergy between clothing accessory and carpet input branding (primarily clothing to carpet – unlikely in reverse direction).

Receptivity

- Current production is very basic. Industry provides in effect a *tabla rasa*.
- Will need to ensure local producers are willing to shift from Iranian yarn by guaranteeing quality and demonstrating branding advantages of 'soup-to-nuts' Afghan production.



Excellent opportunity for import substitution, with local consumption providing migration path towards increased exports. Being lower cost than Iran and differentiated from China will be key.

Findings of Industry Research on Afghanistan

Agenda

Meeting Objectives

Overview of the Afghanistan Competitiveness Project

Process Overview – Cluster Selection Methodology

Industry Research:

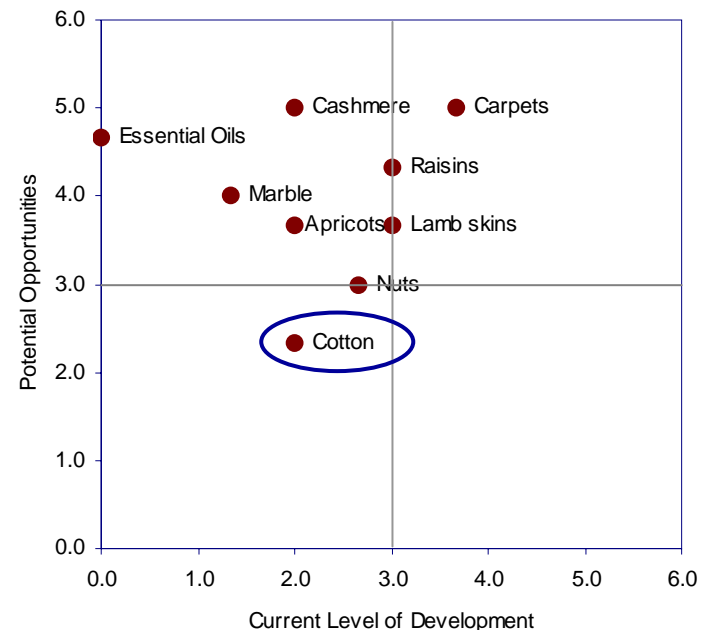
- Carpets
- Lambskins
- Wool & cashmere
- Cotton
- Raisins
- Nuts
- Dried Apricots
- Marble
- Essential oils

Afghanistan Cotton Cluster

Summary

Afghanistan's chances to succeed in the cotton industry look remote given a competitive world market, poor current production methods, and lack of branding opportunities.

Base/Size	Low base of 30,000 tons in 2002 equaling US \$189,000.
Growth	Production is only 25% of its 1983 levels and efficient private entrepreneurs are technically banned from producing in Afghanistan.
Value-add	Majority of current production is at low margin segments of value chain with attempts to forward integrate losing money.
Branding	Difficult to brand a commodity, but organics and "Cotton" campaign could have potential.
Receptivity	Currently banned private operators could be enthusiastic clients, but the government response is mixed.



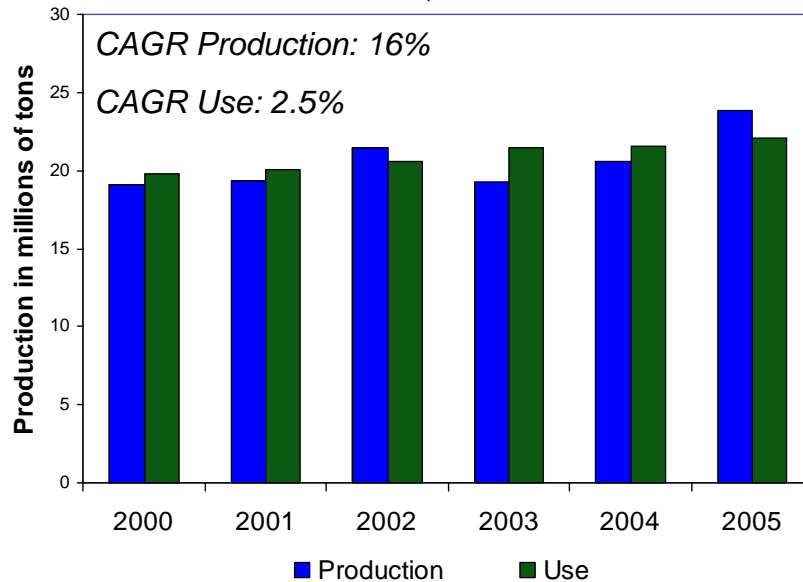
Cotton is probably a “no-go” industry unless combined with other sectors to create a **“textiles plus”** cluster.

World Cotton Market

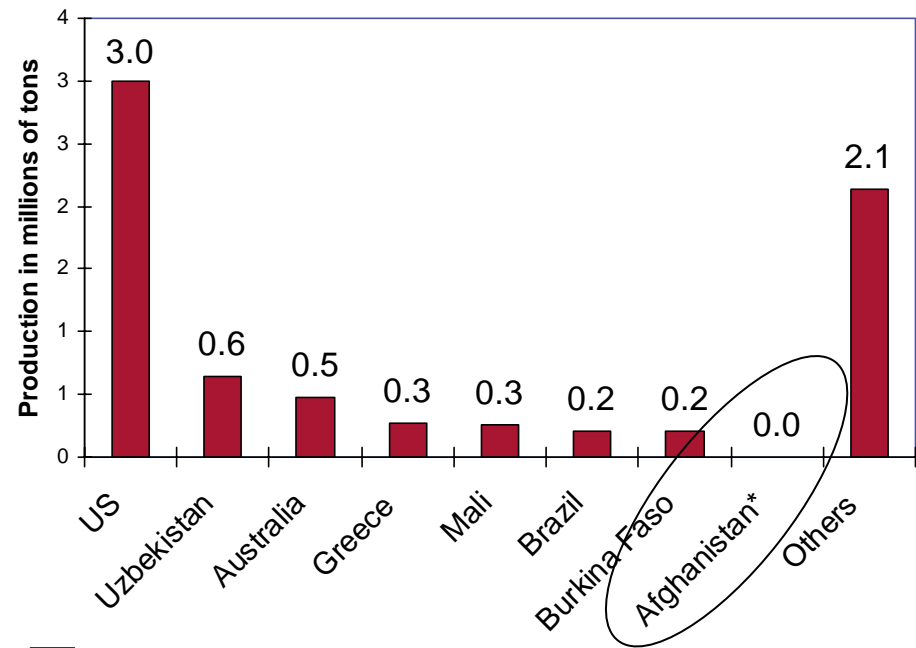
Production and leading exporters

The world cotton market is moving towards oversupply with production growing faster than consumption, with exports dominated by the US.

**Global cotton production vs consumption
2000-2005, metric tons**



Leading export countries 2004, metric tons



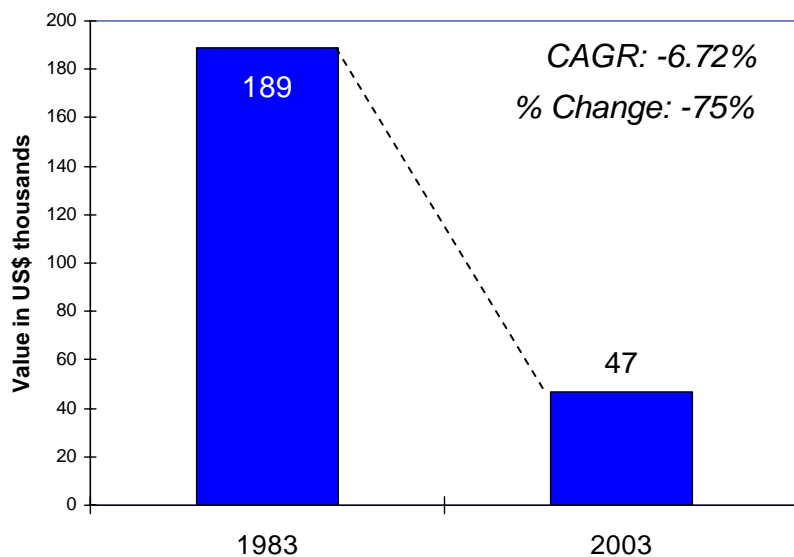
Commodity cotton looks like a competitive market, is there a niche for a differentiated Afghan product?

Afghan Cotton Sector

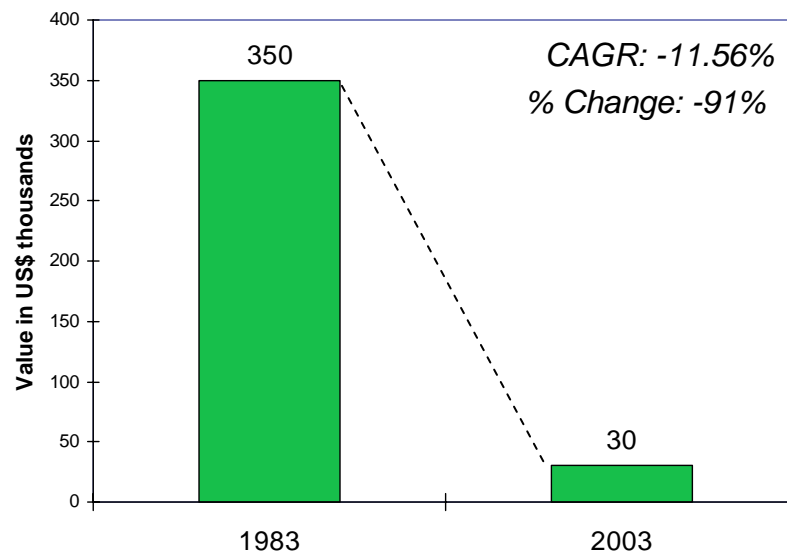
Cluster Selection Criteria – Base / Size

20 years ago, cotton was a major foreign exchange earner for Afghanistan, but hectarage, production, and productivity have dropped significantly.

Hectares under production 1983 vs 2003



Production (metric tons) 1983 vs 2003



Productivity (tons / hectare):	1.85	.65
---------------------------------------	-------------	------------

% Change: -65%



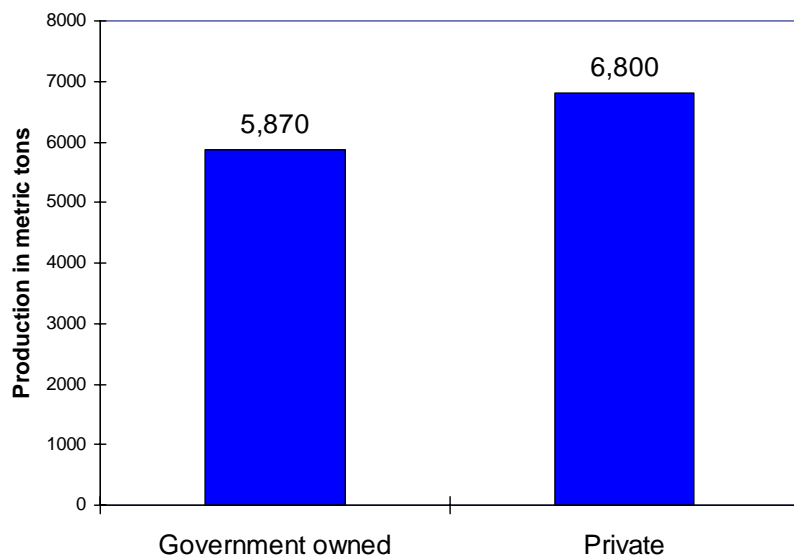
Is there a way to re-build the cotton industry to its former levels?

Afghan Cotton Sector

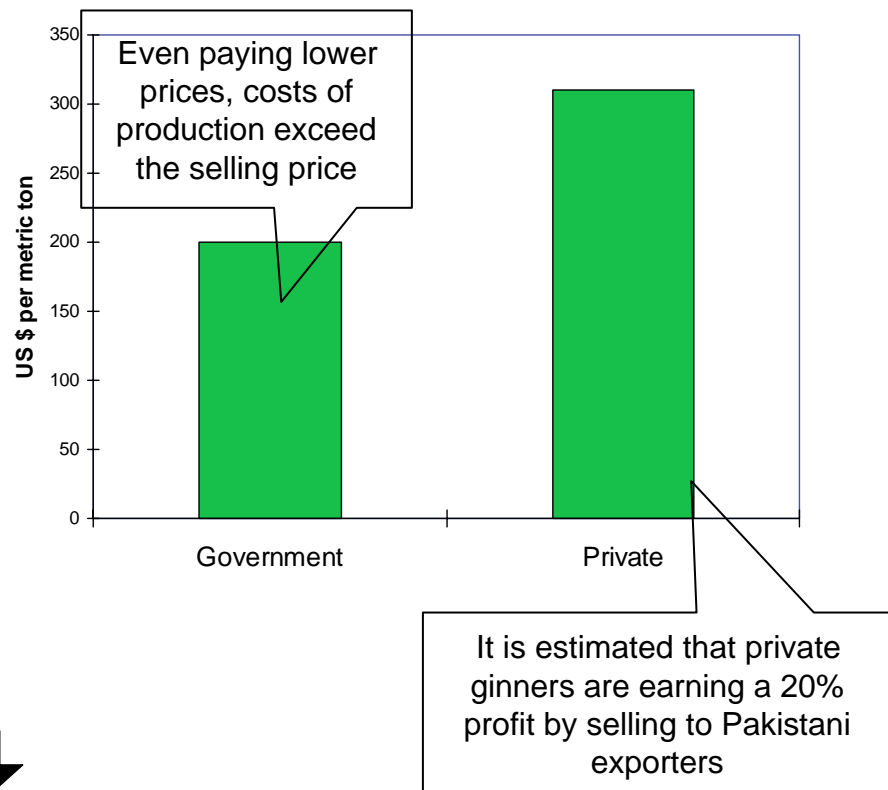
Cluster selection criteria – Potential for Growth

Although technically illegal, private cotton gins in Afghanistan outperform state-owned operations in terms of production, price paid to growers, and profitability.

Ginned Cotton Production, Gov't vs Private



Price paid to growers, Gov't vs Private



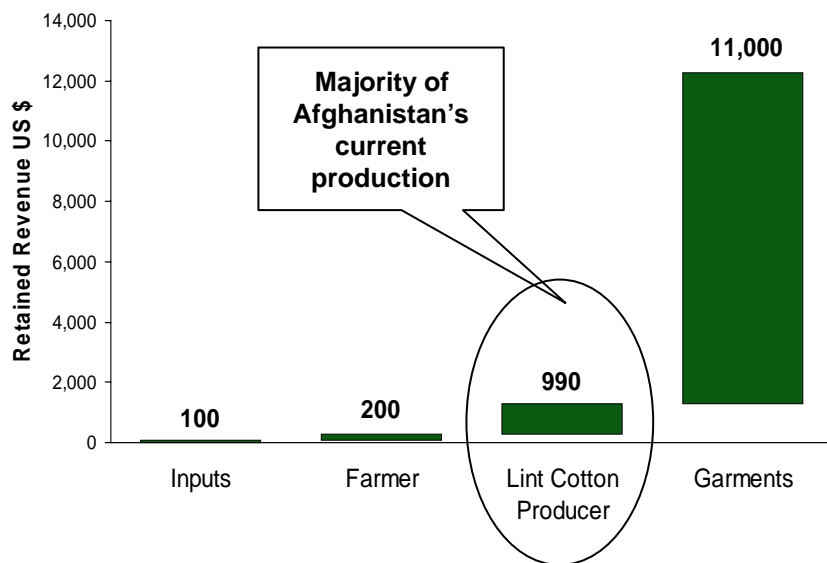
Lifting the ban on private cotton gins could re-launch the sector, but implies tradeoffs such as regulation and taxation for previously unregistered businesses.

Afghan Cotton Sector

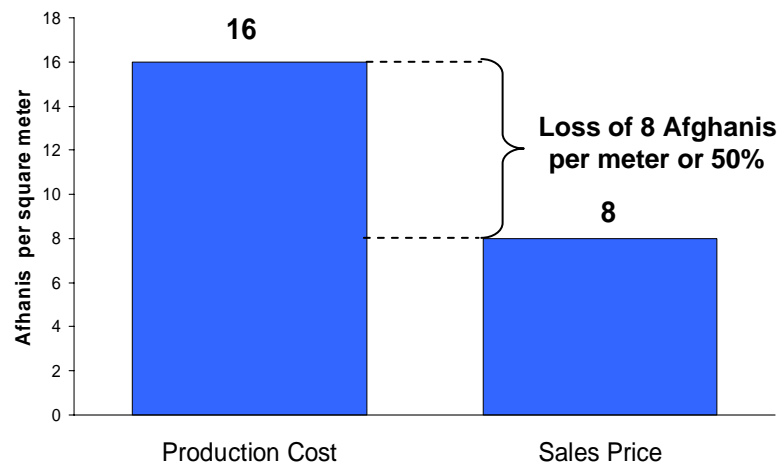
Cluster Selection Criteria – Possibility of Value Addition

Afghanistan's cotton production is mainly focused at low-margin segments of the value chain. At the same time efforts to forward integrate are losing money.

Value Chain for Cotton: Retained Revenue per metric ton (US \$)



Cost of Production vs Sales Price for Government-run textile factories (Afghanis / m²)



There are large opportunities to forward integrate, but can Afghanistan compete with larger more efficient producers such as Pakistan and China?

Afghan Cotton Sector

Cluster Selection Criteria – Branding & Receptivity

Branding

- The possibility of branding Afghan cotton is questionable:
 - Little is known about Afghan cotton and its particular characteristics, so judging the branding possibilities is difficult.
 - However, little or no pesticides & fertilizer are required for cotton cultivation in Afghanistan, so one possibility is to target an organic niche.
 - In the early 1970's, US cotton producers warded off substitution threats from synthetic fibers by hiring a Madison Avenue advertising agency to “re-invent” cotton.*
- Finally, Afghanistan would want to **“brand the shirt, not the cotton”**.



"The seal appeared in 1973, and almost instantly gave cotton a new identity, making a deep impact on public awareness, a rare masterpiece of graphic design-as-communication."

Receptivity

- The receptivity of the cluster is probably mixed:
 - Legalization of private cotton gins could make private gin operators enthusiastic cluster members. In addition, they seem to be the most effective managers in the industry today.
 - The Minister of Agriculture has expressed a willingness to allow for the operation of private gins in Afghanistan.
 - However, the Ministers of Light Industry and Finance seem reluctant to allow for private operations because of allegations of poppy / opium money laundering, and the possibility of undermining the viability of state owned enterprises.

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- Essential oils

Executive Summary

Afghan Raisin Industry

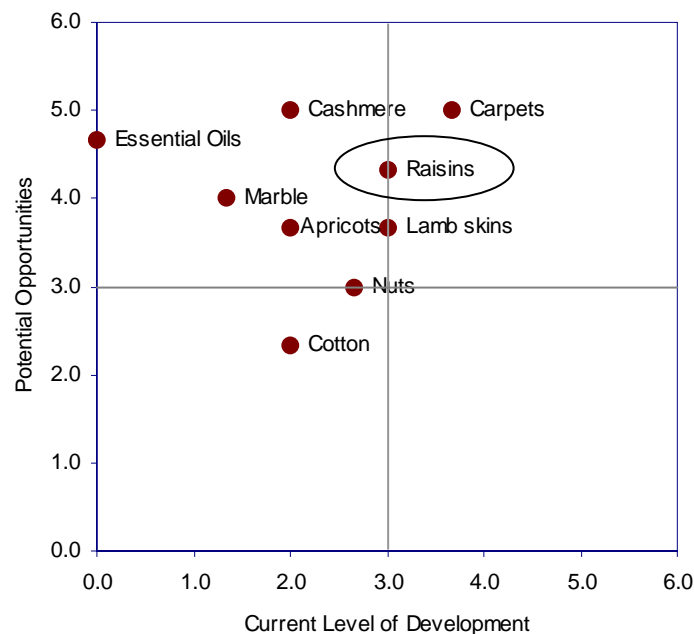
Base/Size \$9.5 million in exports in 2002, recent figures suggest up to \$22 m; large player in the 70's with exports of \$55 m.

Growth Potential exists to expand production decimated by war and drought as well as increase export prices by up to 50% (\$4 m) through quality improvements

Value-add Improvements possible all along the value chain: drying, processing, packaging, shipping & client selection – in addition to exploitation of shade dried raisin niche market

Branding Latent brand, well known by industry players can be revived with good quality offering and have positive spillover effects on entire Fruits & Nuts industry

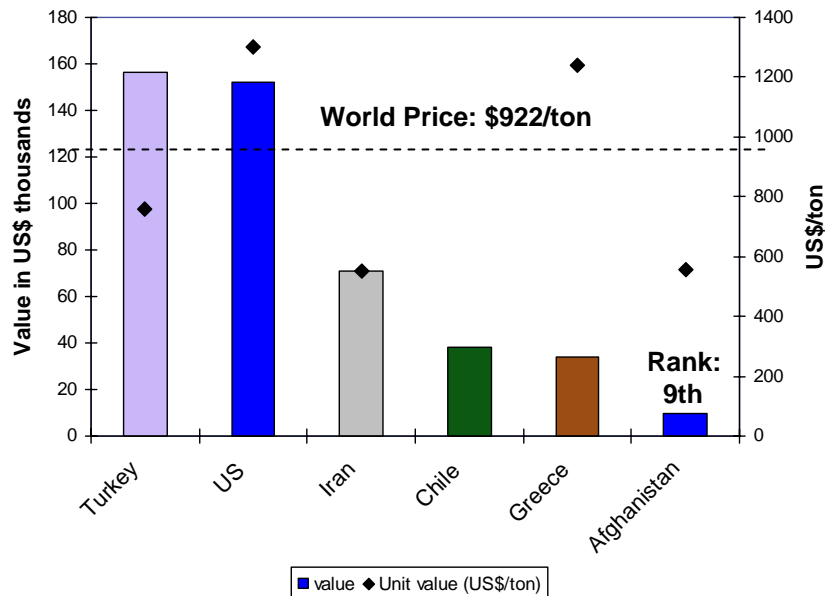
Receptivity Some projects already underway that have shown some success



World Raisin Market

General Information

**5 Main Raisin Exporters plus Afghanistan:
Total and Per Unit Values**



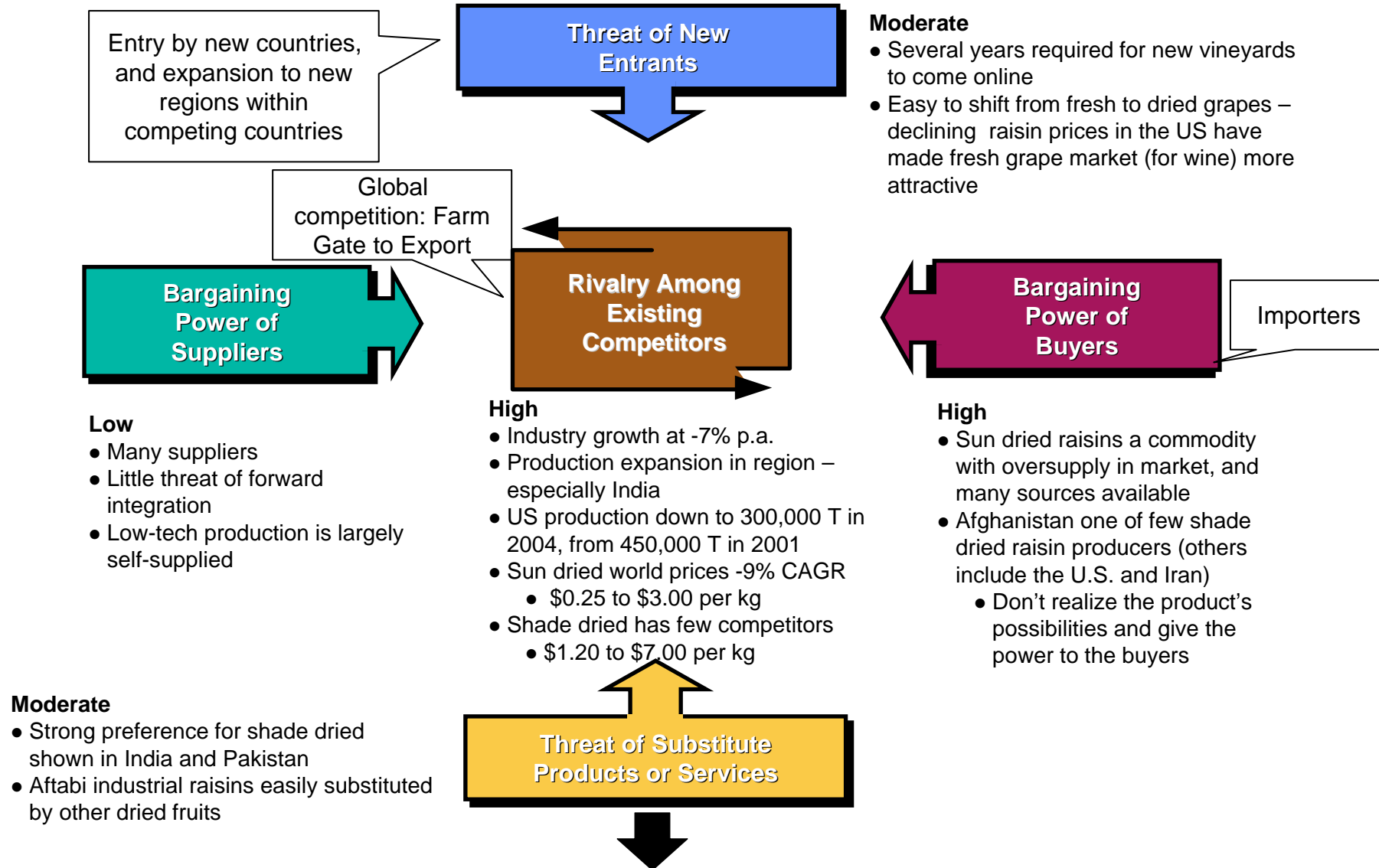
- Two main categories of raisins:
 - Shade dried – hung to dry in special “kishmish khanas” - huts built to catch the dry afghan winds – special product of Afghanistan
 - Sun dried – in Afghanistan these are treated as a throw-away product, and simply dumped on the bare dirt to dry in the sun
- Type of grape also affects quality and differs by region.
- Raisin prices have been falling an average of 9% p.a. since 1998
- Countries like the U.S. receive price premium due to high-tech processing techniques and strategy formulation (market research, customer acquisition & retention, etc.)
- Most sun dried raisins are consumed as part of other products
 - 75% of all California raisins are consumed at breakfast (cereals, muffins, bagels et. al.)
 - Over 90% of Chilean consumption is through the confectionary industry



The world market is dominated by sun dried raisins, Afghanistan shade dried raisins are considered a specialty item

Strategy, Positioning and Sustainable Advantage

Global Raisin Industry Dynamics



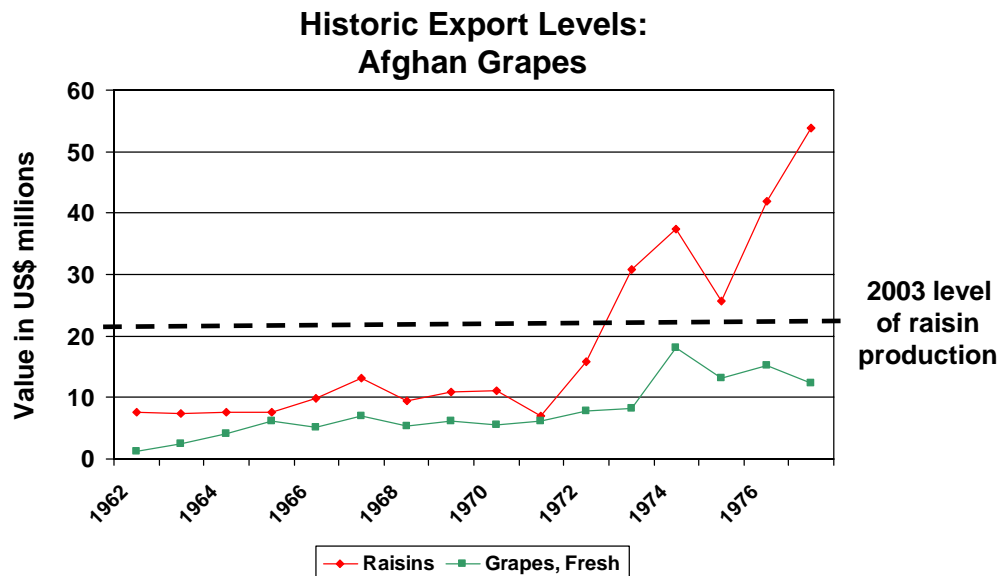
Highly competitive market - decreasing prices are bringing down production in the US; but there may be an opportunity for a niche market in shade dried raisins

Industry Opportunities

Afghan Raisin Industry: Base/Size

Afghanistan was once the largest exporter of raisins, but war and drought have decimated the industry.

- \$612 M world-wide exports
 - No comprehensive data on internal production and consumption
- \$9.5 M in Afghanistan in 2002, to \$22.4 M in 2003
 - Current exports are equivalent to exports in the early 1970's
 - Severe drought since 1999 has hurt raisin production
 - Improvements in the industry will help Afghanistan as a whole, and will help rural areas especially



Current export levels are a fraction of their historical highs, can the industry be revived?

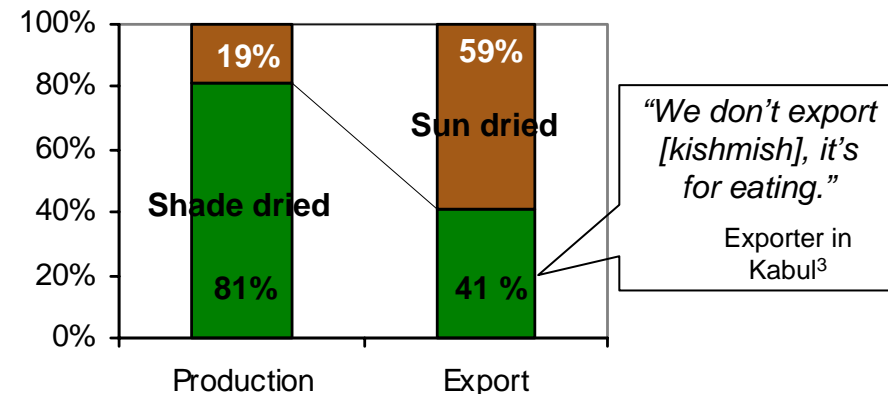
Industry Opportunities

Afghan Raisin Industry: Growth

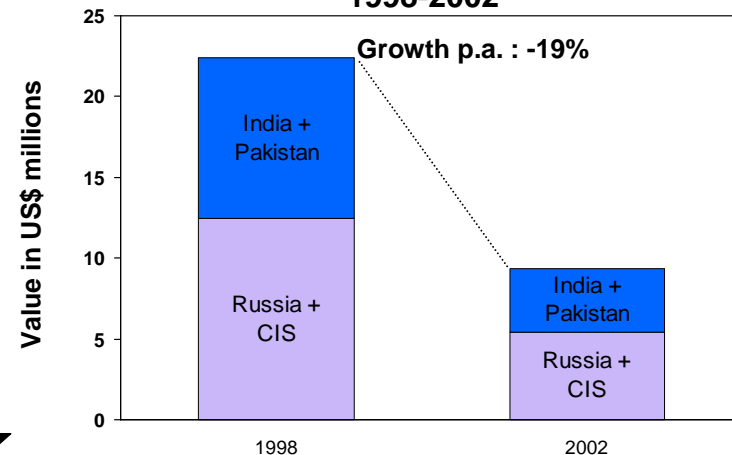
Most raisin exports seem to be overwhelmingly the poor quality sun dried raisins, despite the greater value of shade dried raisins

- Data is difficult to obtain, however it seems that the high value shade dried raisins are consumed in Afghanistan, while the sun dried raisins make up the bulk of exports
- Serious quality issues exist with sun dried raisin production
 - Dried on the ground
 - Sorted by hand or with outdated equipment
 - Shipped with rocks for added weight
- Poor quality prevents sales to more lucrative western markets and leads to over-reliance
 - 99% of exports go to Russia and the CIS, India and Pakistan
 - CIS increasingly imports from Central Asia; India has begun local production
 - Matching world export prices at current levels would mean an extra \$4 million/year

2002 Raisin Production v. Exports by Value¹



Afghan Raisin Exports: 1998-2002²



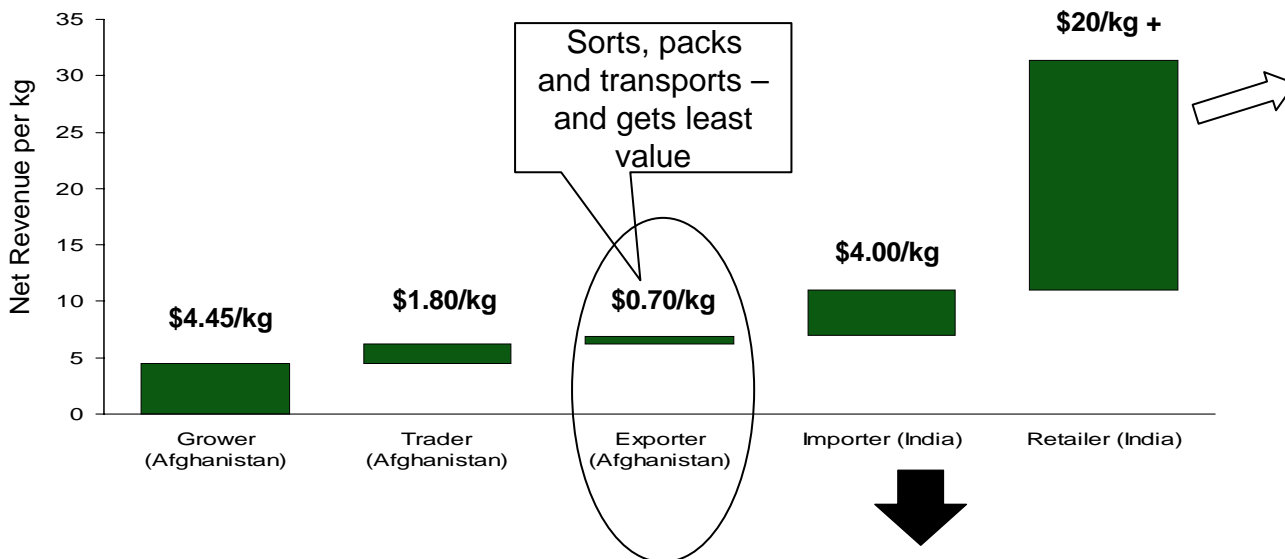
The industry could be re-launched by improving quality for sun dried raisins and customer knowledge for shade dried raisins

Industry Opportunities

Afghan Raisin Industry: Value Add

- Potential exists to add value at every step of the value chain:
 - Sun dried raisins are dried on the ground and shoveled into boxes or bags
 - Cleaning and sorting is done either in outdated facilities or by hand at bazaars
 - Storage and transportation is poor and leads to spoilage
 - Packaging is minimal and inadequate
 - Potential exists to brand shade dried raisins as high-end product

**Net Revenue per Kg. for Each Component of Value
System: High Quality Shundukhani Kishmish**



A great deal of value is not being captured due to poor processing and seemingly little knowledge of product value - more value can and needs to be captured

Industry Opportunities

Afghan Raisin Industry

Branding:

- Historically Afghanistan has been known for raisins, latent brand recognition may exist that can be revived
- Revival of brand for raisins will have positive spillover into Fruits & Nuts sector in general
- Strong brand exists in India and Pakistan for Afghan shade dried raisins

Receptivity:

- Agricultural Cooperatives have shown willingness to invest in processing and value added facilities.
 - Recent RAMP report highlights 8 different investments into processing & cold storage made by various Co-ops.
- It takes three years for vines to attain significant yields after planting which makes changing growing habits difficult
- Processors and exporters have a tendency to put short term profits over building a sustainable business (putting rocks in the shipments to add weight) but can change if they shown a real value
- Highly decentralized drying will make it difficult to effect change at the farm level.



The most famous raisin brand in the world – Sun-Maid is 30% of California raisin production with sales of around \$100 million – roughly twice of Afghanistan’s historical high



Chaikal Agricultural Cooperative discussing planned raisin processing plant

Conclusions

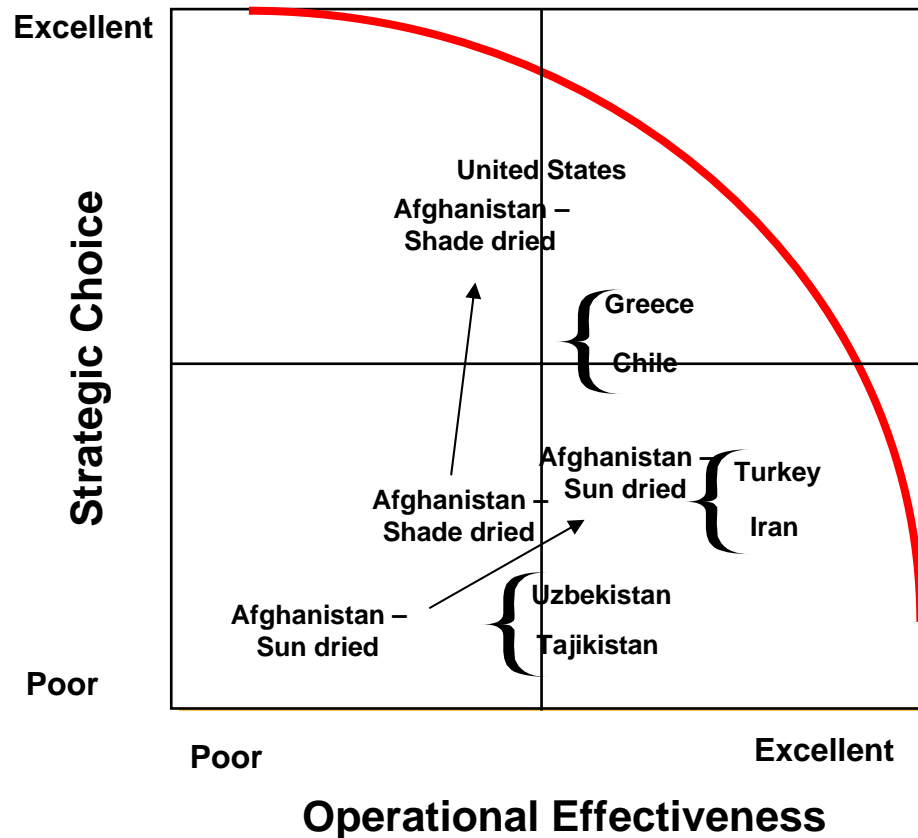
Afghan Raisin Industry

Possibilities of the cluster:

- Large sector with historically important role in world market
- Downward price pressure from regional competition can be combated with improvements along the value chain and focus on shade dried raisin niche market
 - Improved drying at farm level
 - Improved sorting, processing, packaging and storing
 - Marketing and brand building

Possibilities of working with the cluster:

- Various programs have had success with farmers
- Processors and suppliers will follow the \$\$



This cluster has good potential and we can work with it, a success in raisins would have a large impact on the whole economy

Findings of Industry Research on Afghanistan

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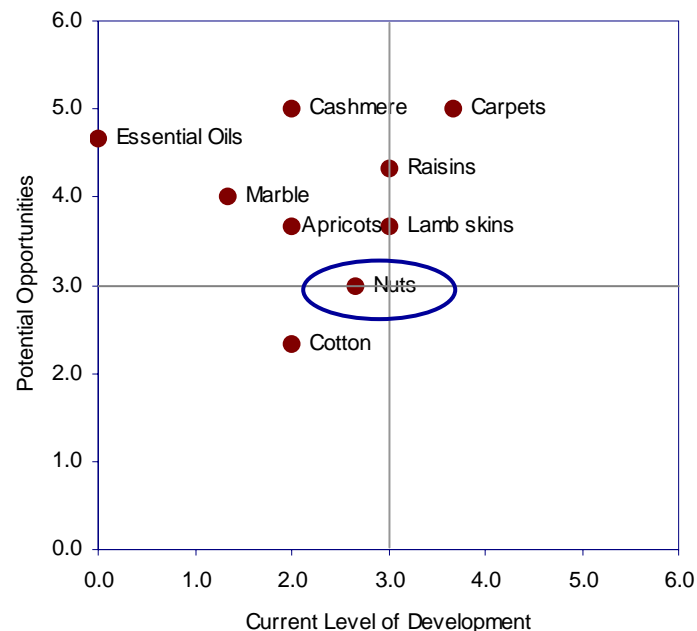
Industry Research:

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- Essential oils

Summary: Afghan Tree Nut Industry

Large base but with challenging growth prospects in terms of both quantity and value capture. Quick wins available through sorting and quality control, which could be undertaken as part of a larger cluster initiative including dried fruit.

Base/Size	Large export category - \$8.7M
Growth	Tight market with declining prices – 10% fall for shelled almonds – and new entrants coming on line
Value-add	Basic product, all of which is exported to India. Simple processing/quality assurance for table consumption could provide route to access industrial-use markets
Branding	Enjoys good reputation in India, but unknown in largest markets
Receptivity	Bad habits, such as including apricot pits with almonds, will need to be overcome



Global Tree Nut Market

Three nut varieties dominate Afghan exports: almonds, pistachios and walnuts. Main uses in confectionary, ice-cream, breakfast cereals, & health bars.

Main consumers are Germany, Spain, UAE, India and Hong Kong.

Virtually all Afghan nuts go to India.

Main exporters:

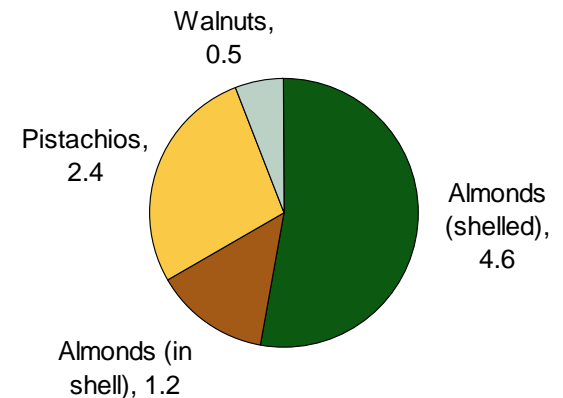
- Almonds – US and Spain dominate market.
- Pistachios – Iran and US account for 3/4 of world exports; Germany is big re-exporter in Europe.
- Walnuts – US has more than a quarter of the market
- Other large exporters are generally net importers.



Almond and Pistachio exports are dominated by the US and Iran respectively. Afghan products will face difficulty in competing against them on scale and quality

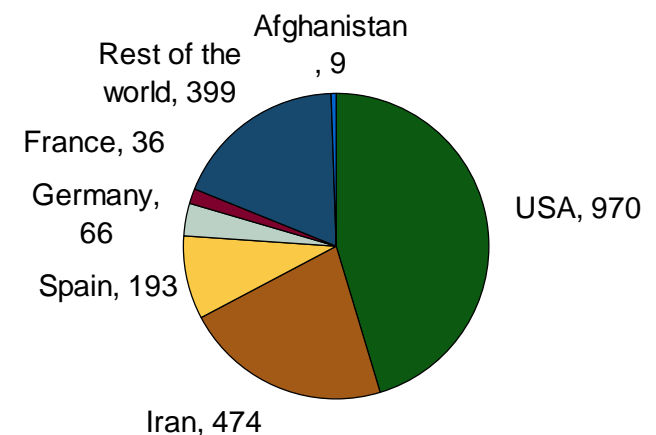
Afghan nut exports

Total \$8.7 M



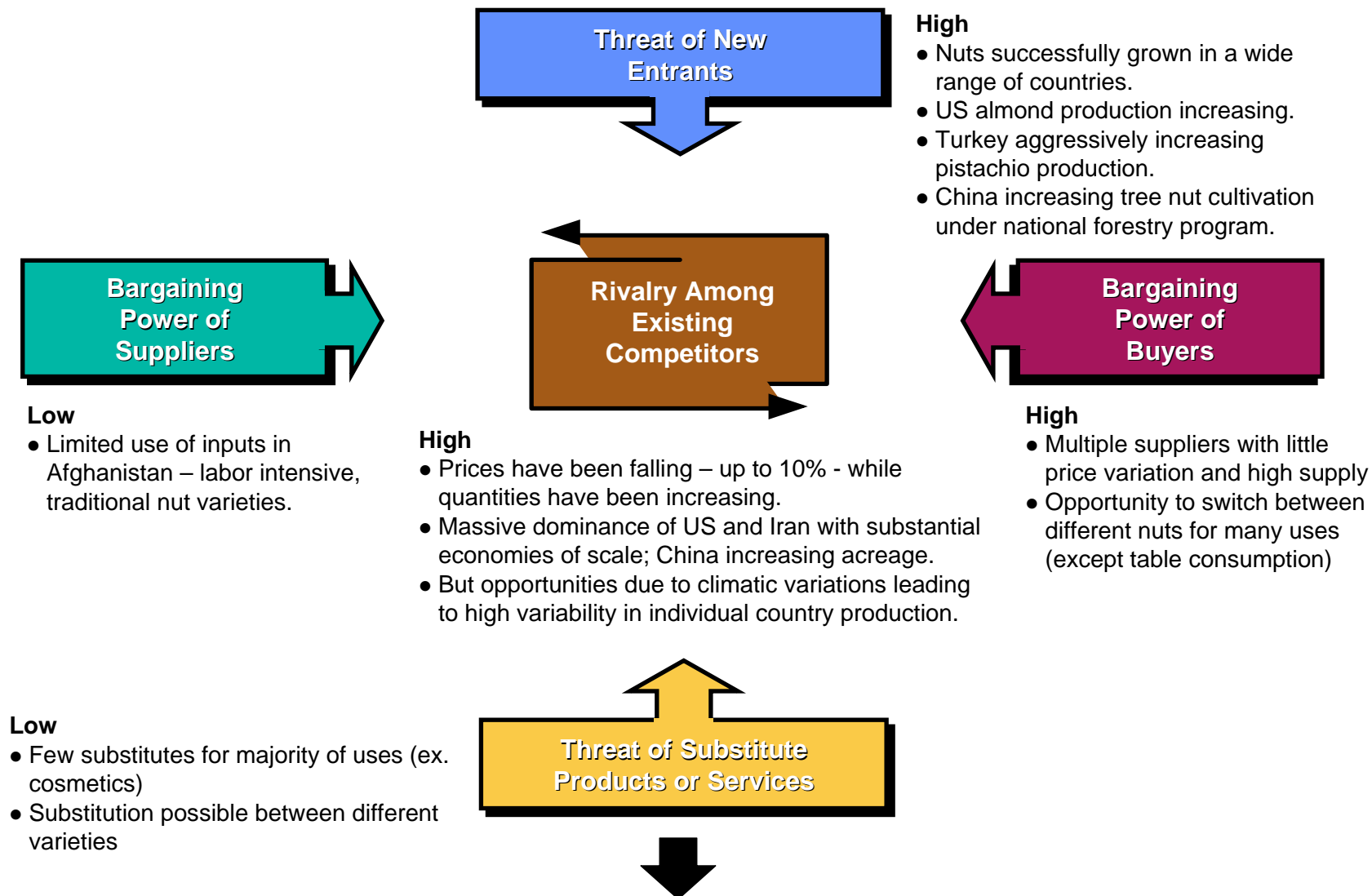
Market share of top 5 exporters

Total \$2.1 B



Strategy, Positioning and Sustainable Advantage

Global Tree Nut Industry Dynamics



It's a buyers' market - highly competitive with little opportunity for product differentiation

Afghan Tree Nut Opportunities

Size/Base

- \$2.1 B world-wide; \$8.7 M in Afghanistan.
- Compares favorably to historical production levels relative to other Afghan products.

Growth

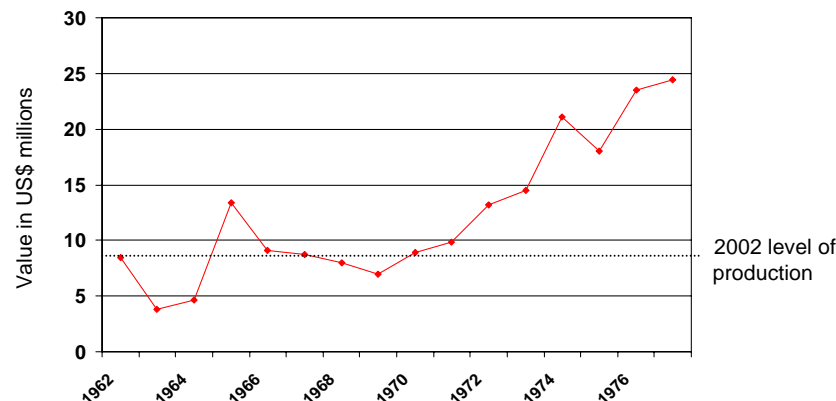
- All products are facing value decline relative to quantity.
- Shelled almonds – the largest segment – is experiencing the steepest fall in prices.

Value Add

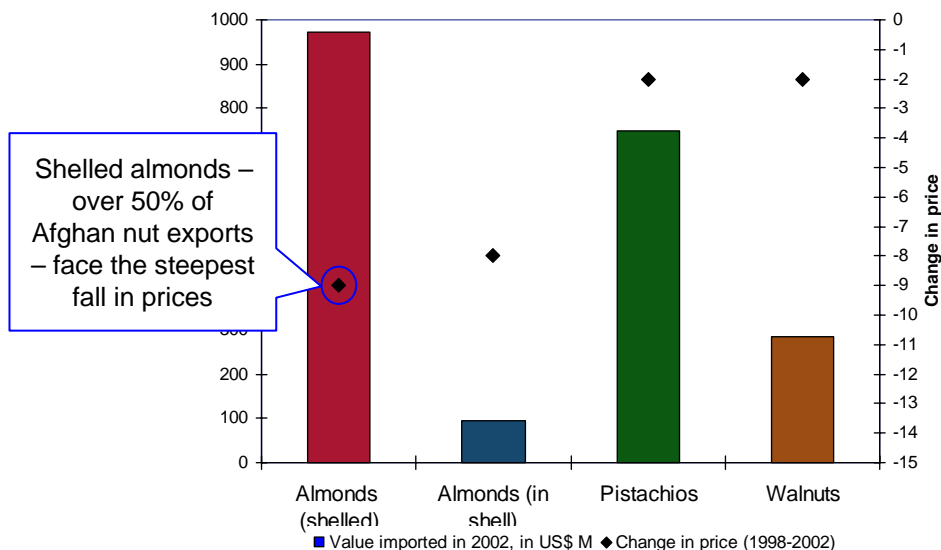
- Potential quick wins in sorting, but price premiums require more than basic processing.
- Production for Indian and Pakistani market offer good migration path opportunities.
- Opportunities for industrial use (business-to-business) in other markets, but Afghanistan does not currently cater to them.

	Price/lb (\$)
Cranberry & Almond Cereal	4.96
Almond extract	4.19
Almond paste	0.60
Roasted almonds	0.59
Sliced almonds	0.58
Whole almonds	0.58

Historical Nuts Export Levels



Global imports of select tree nuts



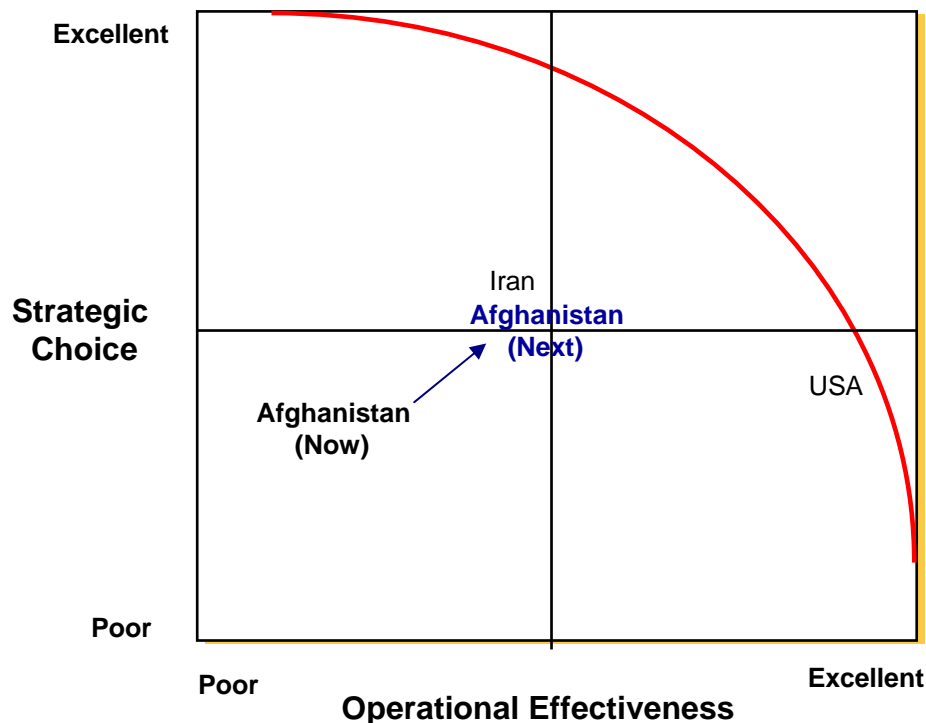
Afghan Tree Nut Opportunities

Branding

- Strong product preference among high-income Indian households.
- Unknown in other large tree nut markets.
- Good opportunity to couple with dried fruit, building combined brand for both table and industrial products (e.g. branding the kishmish raisin and Afghan almond in India).
- Short-term gain attitude will have to be overcome (i.e. no doctoring of exports)

Receptivity

- Limited customer base so little exposure to competition in large markets.
- Price pressures bound to provide some incentive for change.
- India and Pakistani markets offer good migration paths to European markets.



Limited options - highly commoditized products. Building brand for basic quality table product can provide an entry in time for increased processing

Findings of Industry Research on Afghanistan

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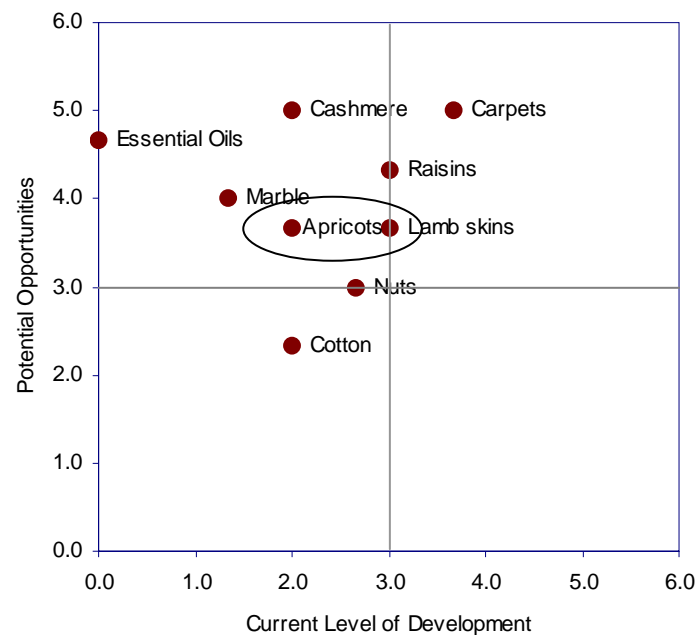
Industry Research:

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- Essential oils

Executive Summary

Afghan Dried Apricot Industry

Base/Size	Around \$2 million in export value, the market is dominated by Turkey and Iran
Growth	Production has been hurt by war and drought, and inefficient growing techniques
Value-add	Improvements possible all along the value chain: drying, processing, packaging, shipping & client selection, short-term upside is limited to around \$500k/year if prices can be pushed to the level of Turkey
Branding	Branding apricots is difficult, may have some luck with “organic” or “free trade” branding
Receptivity	Takes a long time to grow a tree to maturity; Co-ops have shown willingness to invest in processing & cold storage facilities

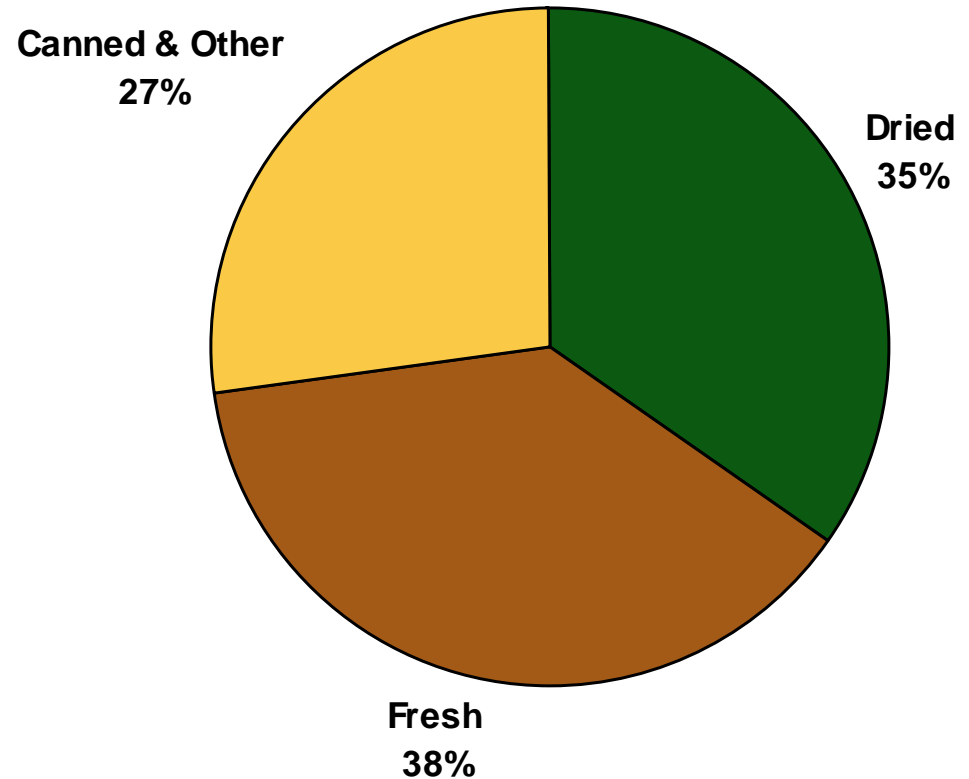


World Apricot Market

Market Size

- The market is split evenly between the three products
- Afghanistan exports mostly dried apricots due to the ease of storage and handling.
- Canning requires a larger investment and should be viewed as a possible future migration strategy.
- Apricot prices rose in the 90's peaked in 1996 and have since been coming down sharply due to overproduction.
- Apricot harvested acreage has grown in most of the top 10 producing countries since 1990.

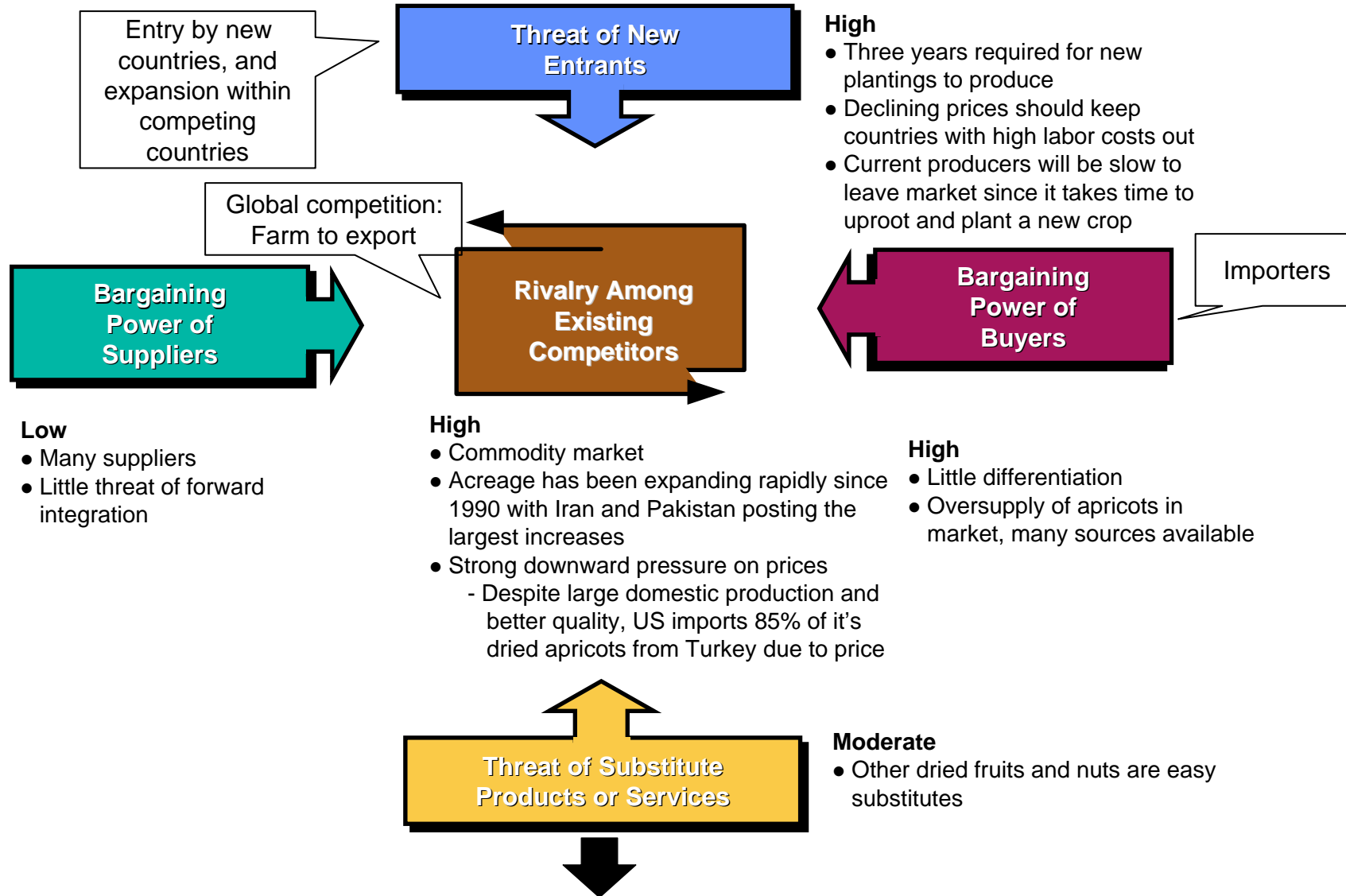
Total Market Size: \$470 Million



	1998 \$/ton	2002 \$/ton	CAGR
Dried	3030	1524	-15%
Fresh	1064	983	-2%
Canned	1101	899	-5%

Strategy, Positioning and Sustainable Advantage

Afghan Dried Apricot Industry

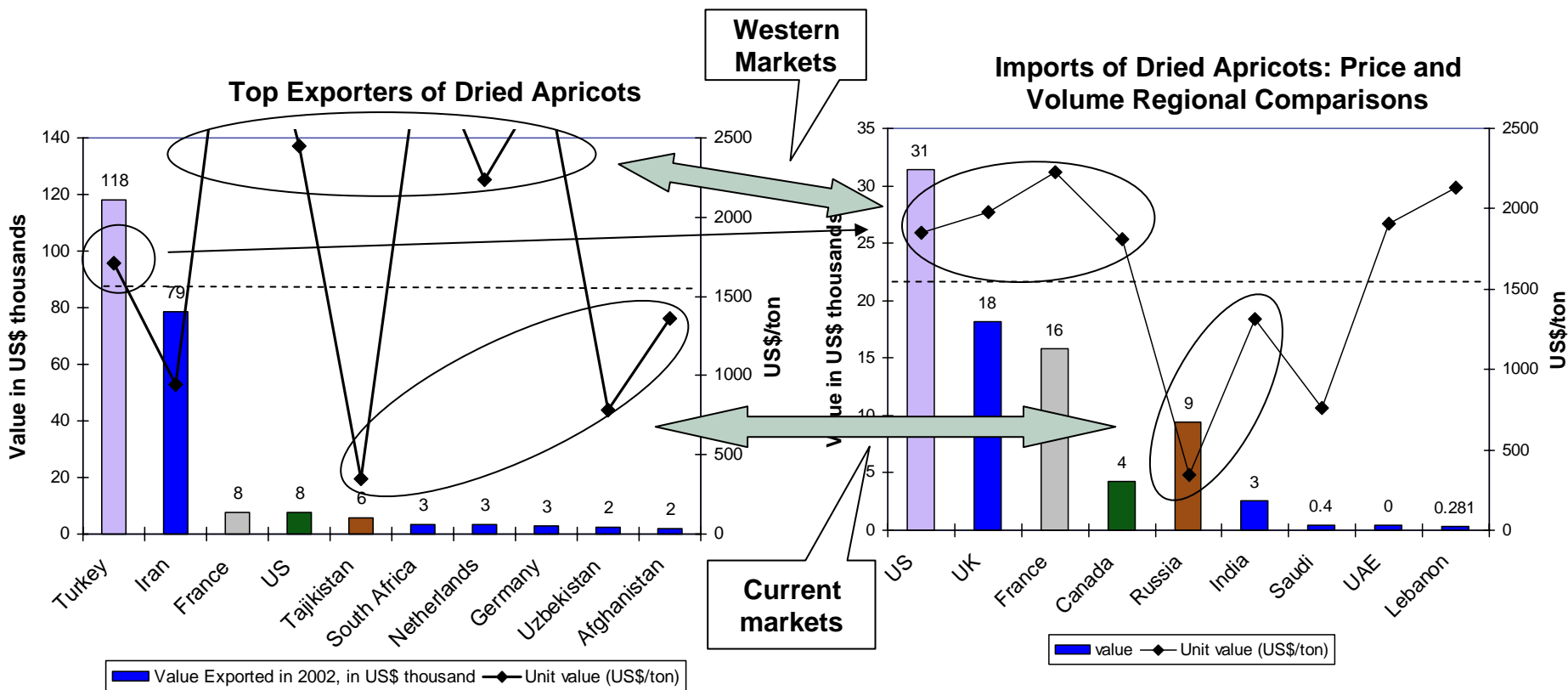


Standard commodity market, price driven with quality as a threshold

Industry Opportunities

Afghan Dried Apricot Industry: Value Add

Quality standards are low and limit access to lucrative Western markets.



Improvements in quality that open access to western markets will allow Afghanistan to capture more value, although with prices coming down world-wide the upside is limited, selling at the same price as Turkey will increase value by \$500,000 +

Industry Opportunities

Afghan Dried Apricot Industry: Base/Size, Growth, Branding & Receptivity

Base/Size

- \$163 M world-wide
- \$2.0 M in Afghanistan
 - Will never be a large player in this industry
 - Severe drought has hurt production

Growth

- World growth: -2% p.a., Afghan growth: -3 p.a. - volumes increasing but prices dropping
- Problems to overcome for increasing prices:
 - Cleaning and sorting is done either in outdated facilities or by hand at bazaars
 - Storage and transportation is poor and leads to spoilage
 - Packaging is minimal and inadequate
 - Marketing

Branding

- Difficult to brand due to commoditization
 - “Organically Grown”, “Natural Drying” & “Free Trade”
- Possibility of branding as part of “Brand Afghanistan” program
 - Branding of entire Fruits & Nuts sector
 - Afghan brand benefits can carry over from different sectors

Receptivity

- Long cycle times (growing a tree to maturity) acts as a deterrent
- Agricultural Cooperatives have shown willingness to invest in processing and value added facilities.
- Declining prices will increase eagerness to find solutions at every link of the value chain, but especially among exporters



While possibilities exist, this cluster makes sense mostly as part of a bigger Fruits & Nuts cluster, but not as a stand alone.

Conclusions

Afghan Dried Apricot Industry

Possibilities of the cluster:

- Typical commodity market with strong regional competition
 - Little room for differentiation
 - Limited upside
- Improvements along the value chain can help capture more value
 - Improved drying at farm level
 - Improved sorting, processing, packaging and storing
 - Marketing and brand building

Possibilities of working with the cluster:

- Various programs have had success with farmers
- Processors and suppliers will follow the \$\$



Improvements in quality will capture limited value, upside is limited by lack of possibilities for differentiation

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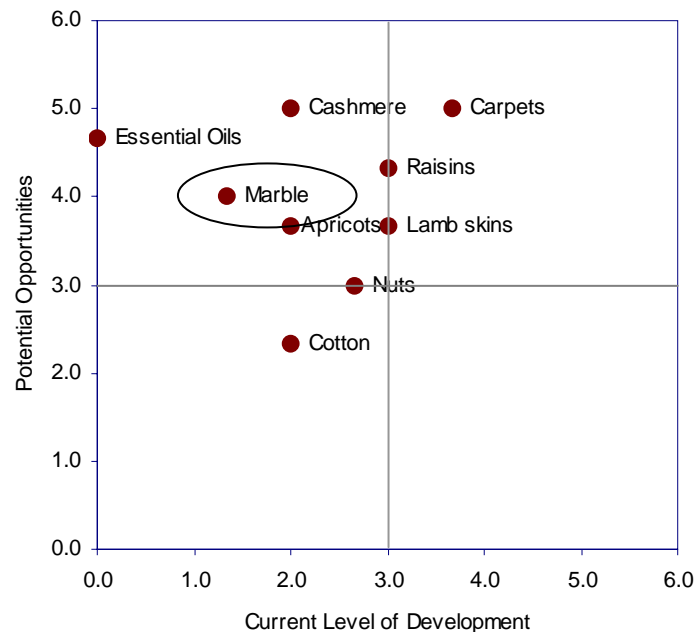
Industry Research:

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- Nuts
- Dried Apricots
- Marble
- Essential oils

Executive Summary

Afghan Marble Industry

Base/Size	Size is unknown, but majority of exports seem to be to Pakistan.
Growth	Accessing foreign markets should lead to more export opportunities than relying on Pakistan, but difficult to quantify
Value-add	Little processing for export markets is done in Afghanistan, most of the value is captured abroad; exports raw marble, imports marble blocks
Branding	Few countries have been able to successfully brand marble
Receptivity	Recent investments into cutting equipment have been made; Processors seem eager to capture more value and cooperate with the project

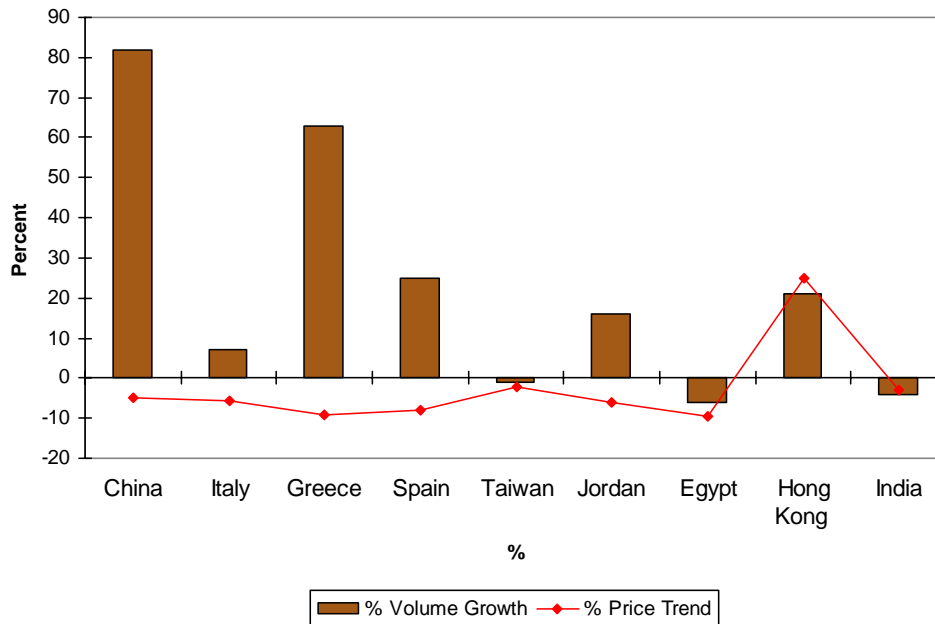


World Marble Market

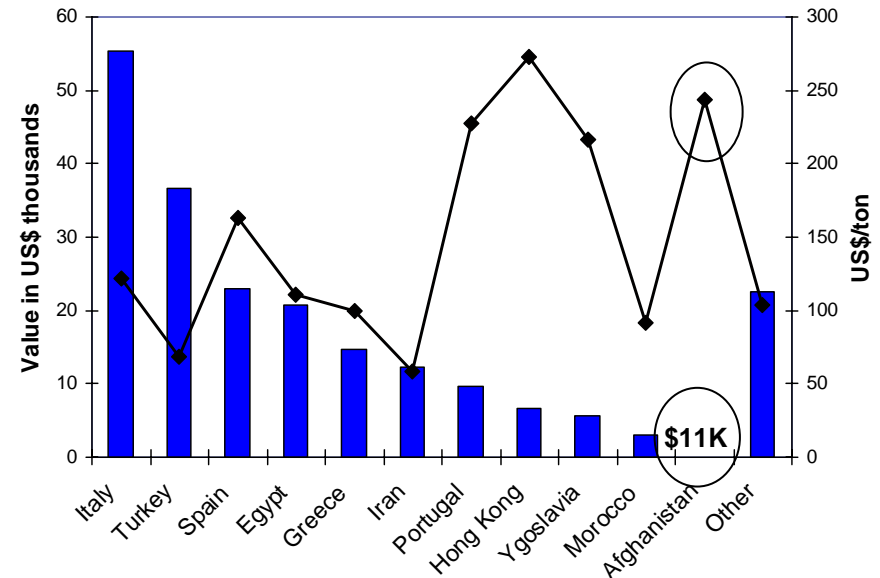
Leading exporters and price trends

The world market for uncut marble seems to be oversupplied as prices decrease in the face of increasing volumes.

Top 10 Importers of Uncut Marble: Annual volume and price growth 1998-2002



Top Exporters of Uncut Marble



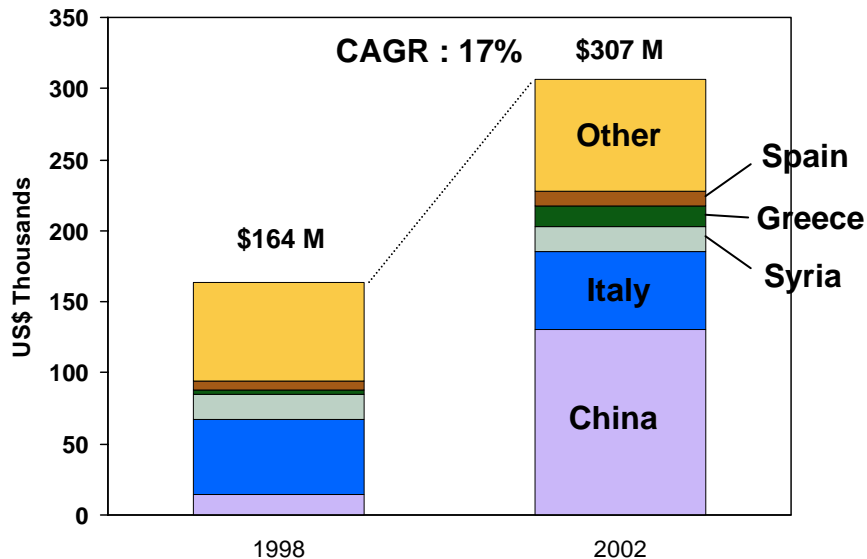
Uncut marble is a commodity product, and Afghanistan is a small player in the market. Is there possibility for differentiation?

Afghan Marble Sector

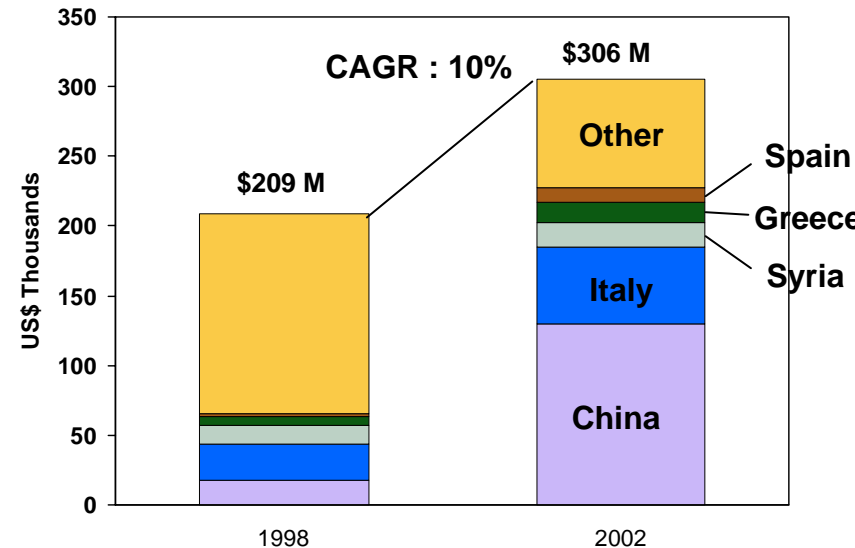
Cluster selection criteria – Base/Size & Growth

The markets for both cut & uncut marble have been growing. Afghanistan currently exports uncut marble to Pakistan, and imports cut marble for local production.

Un-cut Marble Imports: 1998 v 2002



Cut Marble (Blocks & Slabs) Imports: 1998 v 2002

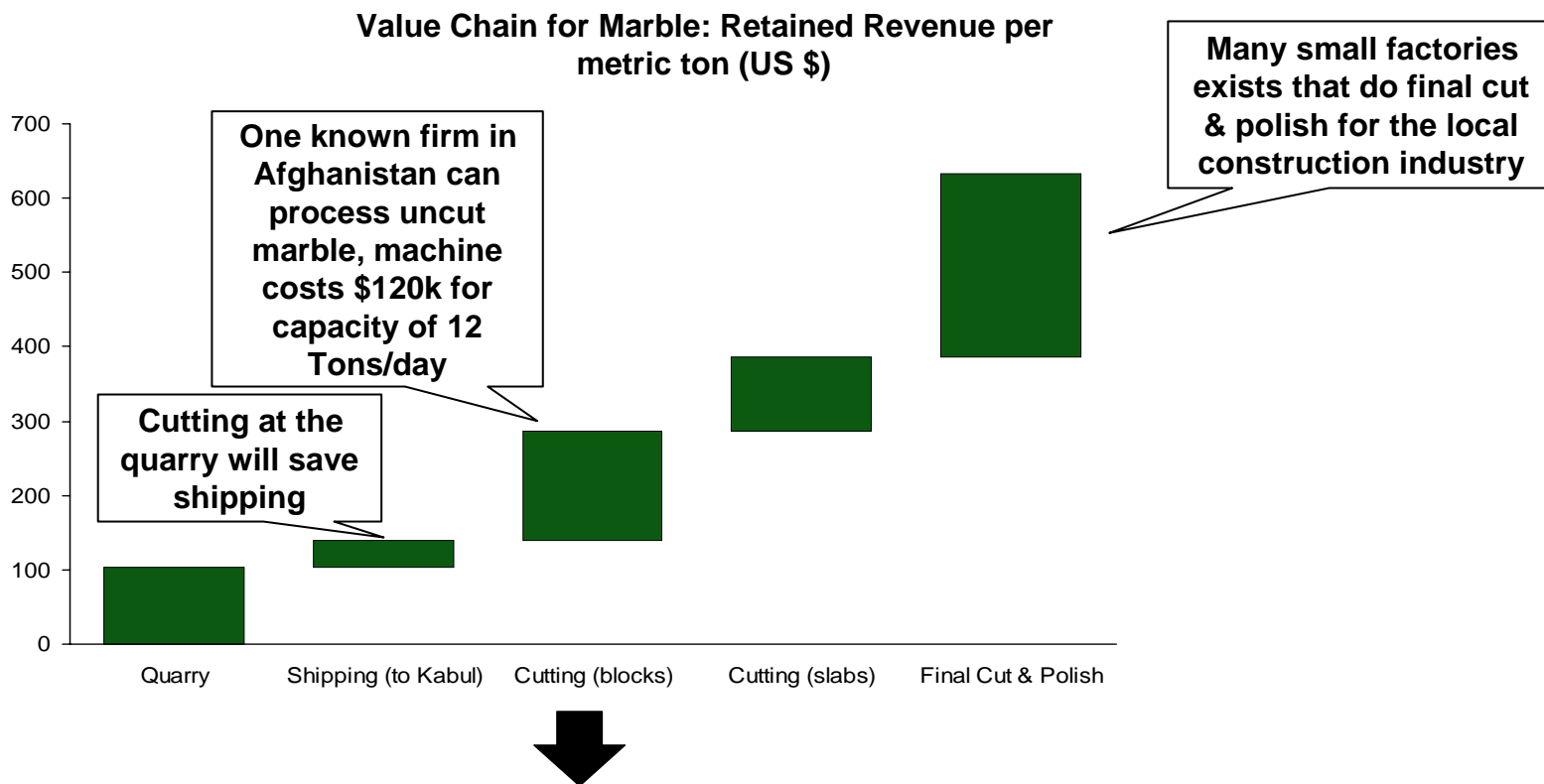


Industry has potential, but reliant on Chinese construction boom – what will the effects of a Chinese slowdown be?

Afghan Marble Sector

Cluster Selection Criteria – Possibility of Value Addition

Afghanistan exports only uncut marble and imports cut tiles for final cutting and polish for use in local construction. The final cut & polish must be done to exact client specifications and is done on a per-order basis.



Investments in cutting equipment are necessary to capture more value. Exporting polished marble will require close coordination with end-users – Afghanistan can combine import substitution and export strategy.

Afghan Marble Sector

Cluster Selection Criteria – Branding & Receptivity

Branding

- Outside of Pakistan little is known about Afghan marble.
- Examples exist of countries that have successfully branded marble, most notably Italy and Spain.

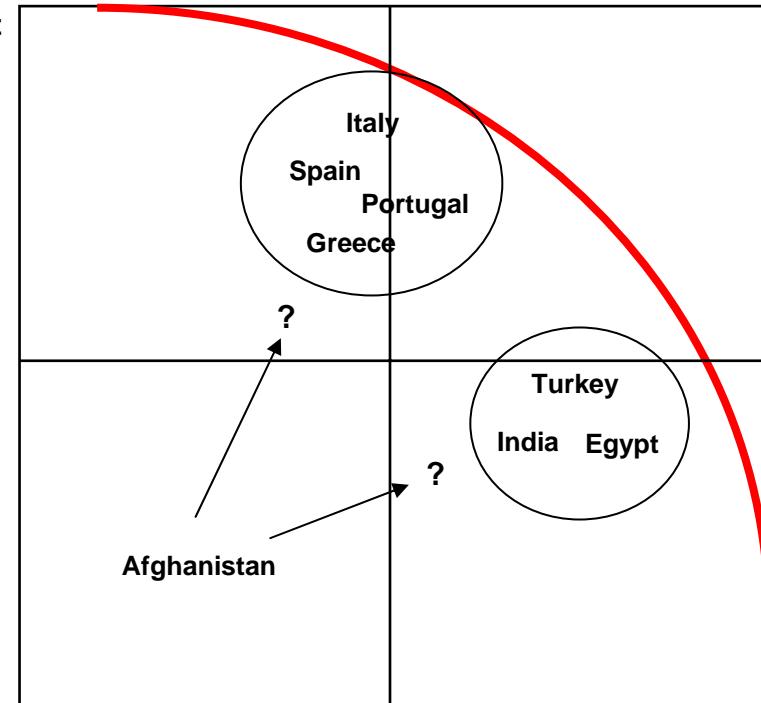
Receptivity

- Recent investment into cutting equipment (4 mo. old plant) by private individual shows willingness of industry to improve
- Old cutting plant with Italian technology existed in Kabul but was destroyed in the war (circa 1998)

Excellent

Strategic Choice

Poor



Poor

Excellent

Operational Effectiveness



Will Afghanistan be able to gain the market knowledge to capture the greater value of quality, or can it compete operationally with established players?

Findings of Industry Research on Afghanistan

Agenda

Meeting Objectives

Overview of the Afghanistan Competitiveness Project

Process Overview – Cluster Selection Methodology

Industry Research:

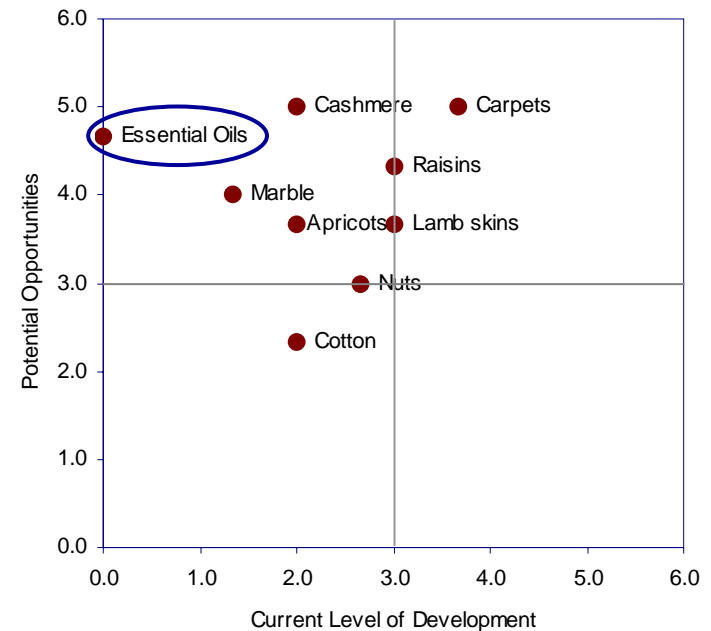
- Carpets
- Lambskins
- Wool & cashmere
- Cotton
- Raisins
- Nuts
- Dried Apricots
- Marble
- Essential oils

Afghanistan Essential Oils Cluster

Summary

Although the industry does not currently exist, growth rates in other countries, branding opportunities, and donor enthusiasm suggest good potential for essential oils.

Base/Size	Non-existent base, although there is one interested investor for rose oil processing.
Growth	Huge potential based on 84% annual growth rate for essential oils in Iran between 1998-2002.
Value-add	Excellent possibilities with accessible technology to sell rose oil at \$4,400 per kg and even higher with more sophisticated packaging.
Branding	Good possibilities with “Afghan Rose” concept and success Bulgaria in branding its rose oil.
Receptivity	Difficult to judge in private sector, but donor enthusiasm is high.

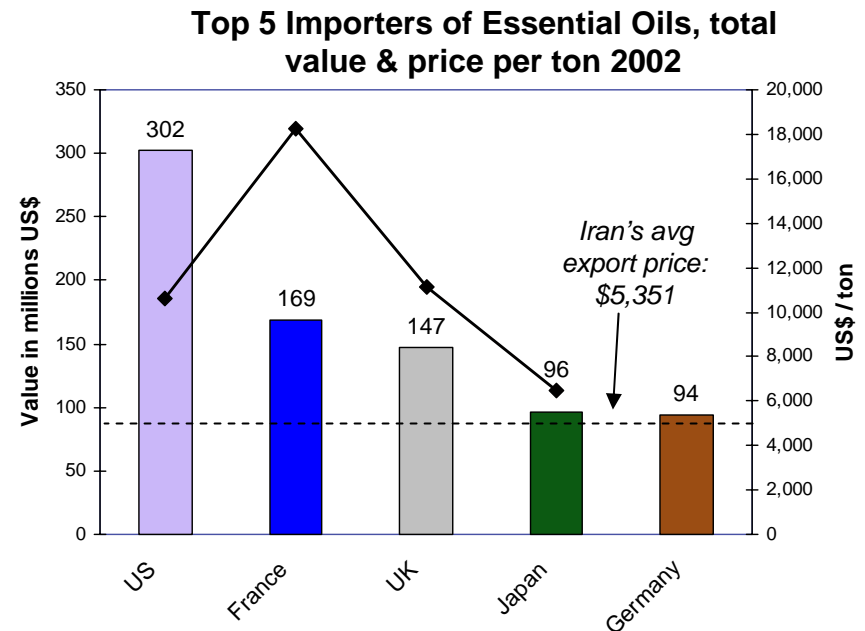
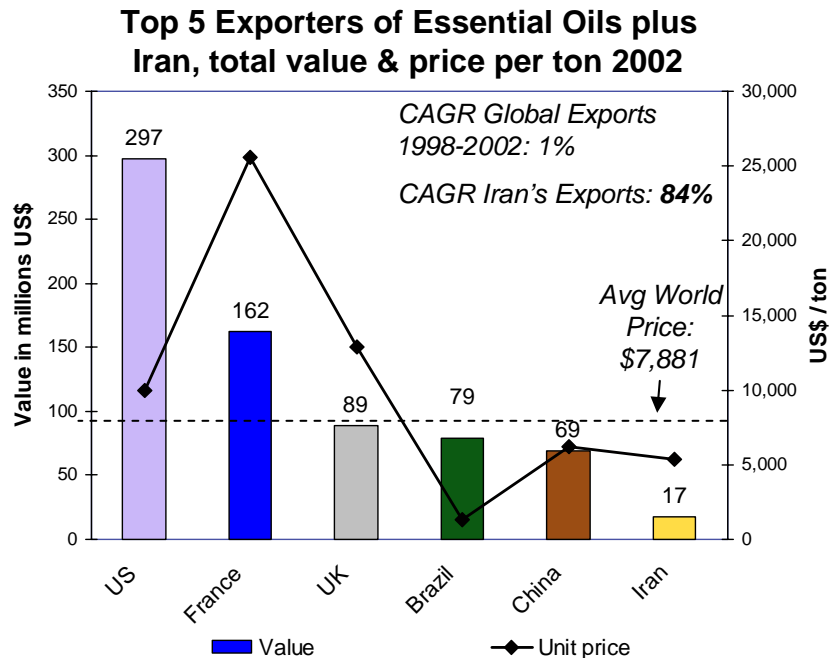


As part of portfolio of cluster initiatives, essential oils could serve as a “green field” test case.

World Essential Oils Market

Top 5 World Exporters & Importers

Growth in global exports is slow at 1%, but Iran achieved 84% growth between 1998-2002. Less developed countries tend to receive below the world average for their products.



Afghanistan could follow the growth trajectory of Iran, while using better customer knowledge to access higher-paying customers.

Afghan Cotton Sector

Cluster Selection Criteria – Base / Size, Growth, and Receptivity

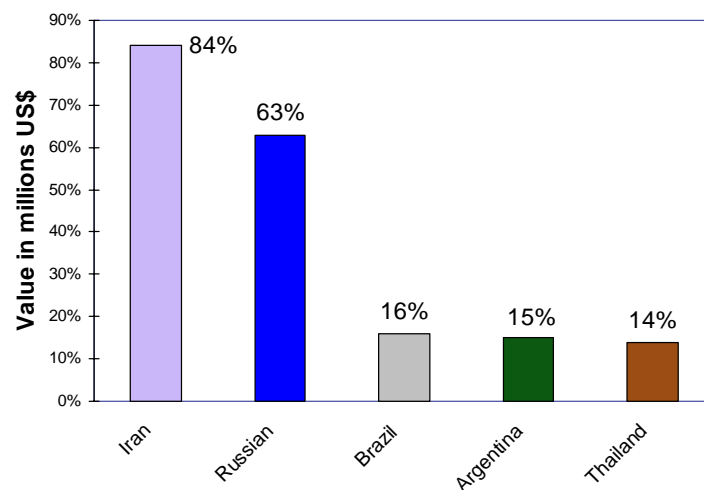
Base / Size

- Currently, there are **no essential oils producers in Afghanistan**, so this would be a **“greenfield” cluster** where entrepreneurs would have to be encouraged to invest.
- However, in the rose oil segment:
 - One French investor has expressed serious interest in setting up a company called “Afghan Rose”, based on Altai Consulting’s feasibility study. This company would process rose water into rose oil.
 - Afghanistan is also the “cradle” of the original rose, so supply of high quality raw materials could be made available.

Growth

- Growth prospects for the industry look encouraging:
 - Several developing or emerging economies registered high growth rates in essential oils exports from 1998-2002.

Export Growth Rates for Essential Oils of Select Developing Countries, 2002



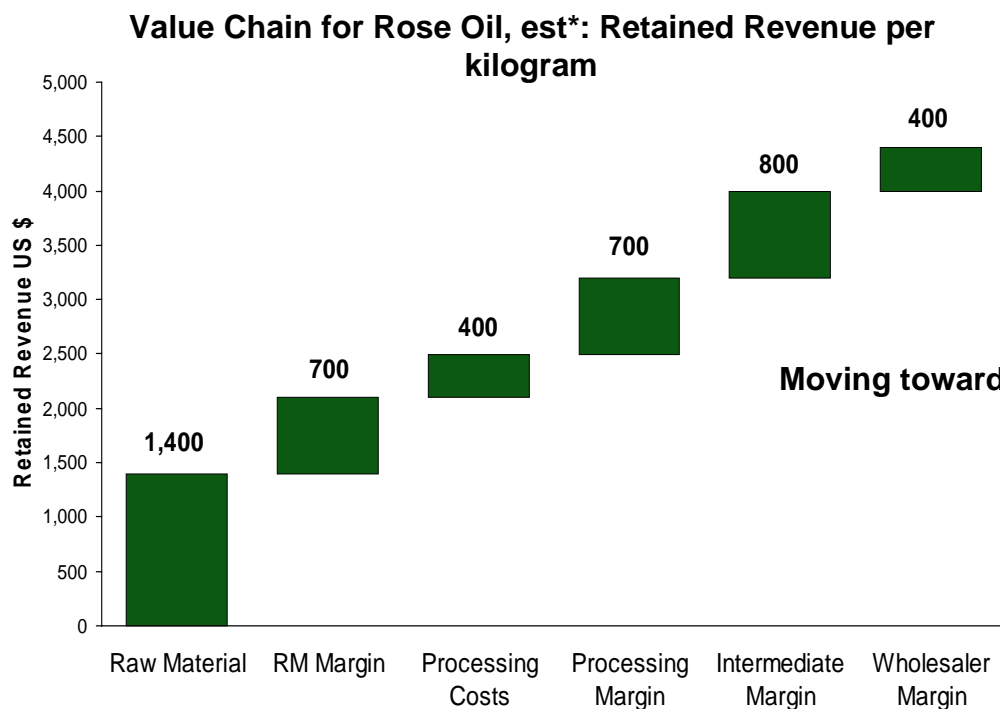
Receptivity

- Receptivity of the private sector is difficult to judge, although Afghan Rose could provide a powerful demonstration effect.
- The donor community, especially UNDP and RAMP seem interested in essential oils, especially with the excitement generated by Altai’s feasibility study.

Afghan Essential Oils Sector

Cluster Selection Criteria – Possibility of Value Addition in Rose Oil

Wholesale prices of 1 kg of rose oil hover between \$4,000-5,000 with significant benefits to growers. Original packaging could bring even higher margins.



Moving towards even more value addition

Higher Value Added Products & Prices incorporating Rose Oil



1 kg rose oil in traditional concum from Bulgaria: \$7,000



1/6th ounce Rose Otto Aromatherapy Rose Oil from Turkey: \$54.59 (equivalent of \$11, 549 / kg)

Can Afghanistan build the processing capability and develop the distribution channels necessary to sell to customers willing to pay premium prices?

Afghan Essential Oils Sector

Cluster Selection Criteria – Branding

Bulgaria has created a strong rose oil brand by capitalizing on its history and an all natural distillation process.

Description of the 330 year history of rose oil in Bulgaria.

Afghanistan is the origin of the Damascena rose.

Explanation of the 100% natural process used to extract rose oil.



"Where rose fragrance lingers...peace reigns..."

ROSE OIL ... a brief overview ... 100% pure, steam distilled, Bulgarian ROSE OIL. This ROSE OIL is produced in accordance with a 330 year-old-tradition. The source and quality is guaranteed. Exquisite Bulgarian ROSE OIL for romance, pleasure and healing.



Bulgarian Rose Oil

Rose Oil, specifically Bulgarian rose oil (also referred to as **rose otto** and **rose attar**) is recognised worldwide as the ultimate **rose oil**. Bulgaria has a 330 year-old-tradition in essential **rose oil** distillation. Approximately 4000 kilograms of petals are required to produce 1 kilogram of pure **rose oil**. Bulgarian **rose oil** is steam distilled (not solvent extracted) and is 100% pure.

SPECIAL OFFER ! 5ml. for \$75.00!
SAVE \$29.50!
FREE Air Express Worldwide

100% pure, steam distilled, Bulgarian Rose Oil.

2ml	<u>\$US39.50 + postage</u>	
4ml	<u>\$US69.50 + postage</u>	Save \$US9.50
6ml	<u>\$US99.00 + postage</u>	Save \$US19.50
8ml	<u>\$US128.50 + postage</u>	Save \$US29.50
10ml	<u>\$US158.00 + postage</u>	Save \$US39.50
15ml	<u>\$US227.25 + postage</u>	Save \$US69.00
20ml	<u>\$US296.00 + postage</u>	Save \$US99.00

1. All postage is \$US5.75 Air Express
2. Certificate of Analysis with all product
3. Source of oil (Bulgaria) and purity (100%) unconditionally guaranteed.

Exquisite and heavenly

Photographed with a molecular microscope by the Florida State University, USA the exquisite and heavenly colours of pure rose attar are seen here at the crystalline level.

TESTIMONIALS

"The quality of the 2004 Bulgarian rose oil is world class! The fragrance is magnificent!"
Alan Rogers CEO
www.perfume.com.au

"The fragrance of the 2004 rose oil crop is unbelievably beautiful."
Mara Hunt
Apollo Bay, Australia

"This Bulgarian rose oil is heavenly ..."
Lynette Ward
Melbourne, Australia

Ads by Goooooogle

Bulgarian Rose Oil
Alteya Group - Production & Export Quality Products
Competitive Prices
www.alteya.com

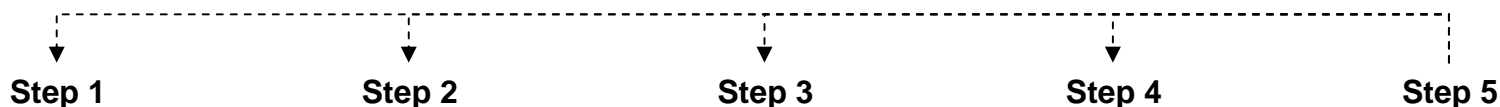
Positive customer and client reviews.



Afghanistan could build a brand based on the distinction of being the birthplace of the rose.

OTF Group's 5-Step Strategy Formulation Process

How Donors could collaborate to upgrade the Raisin Cluster



Step 1

Step 2

Step 3

Step 4

Step 5

Situation Analysis

Set Raisin Objectives

Understand Raisin Buyers' needs

Articulate Afghan Raisin Positioning

Develop Action Guidelines

Analytical Agenda

- Quality analysis
- Identify bottlenecks
- Understand distribution channels and market segments today
- Tendencies of world raisin market (price, volume, segments growth)

- Incorporate national & industry level targets
- Quality improvement targets (# of new plants, % fully-washed, etc.)
- Quantity targets per customer segment (tons or \$ per yr)

- Understand breakdown of raisin importers' segment
- Collect relevant information on needs (i.e., surveys and secondary sources)
- Identify attractive raisin importer segments
- Develop profiles for each raisin importer customer segment

- Analyze competitors and Afghanistan's relative position (costs, quality, etc.)
- Develop essence of the Afghan Raisin
- Develop overall cluster strategy aligned with target customer needs

- Develop action plan along raisin value chain involving all participants
- Prioritize action plan
- Communicate guidelines to relevant stakeholders

Potential for Donor Collaboration

- Draw upon existing and future studies by partners like **Altai / UNDP, RAMP, AREU, & the World Bank.**
- Tap into existing donor networks (**CIPE, RAMP, AWBC, UNDP BDS centers, etc**) to begin forming the Cluster Workgroups

- Incorporate **RAMP** industry objectives into the strategy process.
- Support **UNDP** objectives of encouraging business opportunities and exports.
- **CIPE & UNDP** objectives on trade promotion.

- Develop gap analysis and targeted questions with input from qualified market research institutions such as
 - AREU
 - Altai
 - UNDP
 - RAMP

- Test marketing concepts and positioning statements with foreign partners through **UNDP / Ministry of Commerce, and CIPE / AICC trade** and export promotion efforts.

- Tap into & coordinate existing sources of funds from all donors:
 - VC from **ACAP Partners**
 - Drying facilities & TA from **RAMP**
 - Microfinance for growers from **CHF**
 - Reinforcement of raisin producers assn by **CIPE.**

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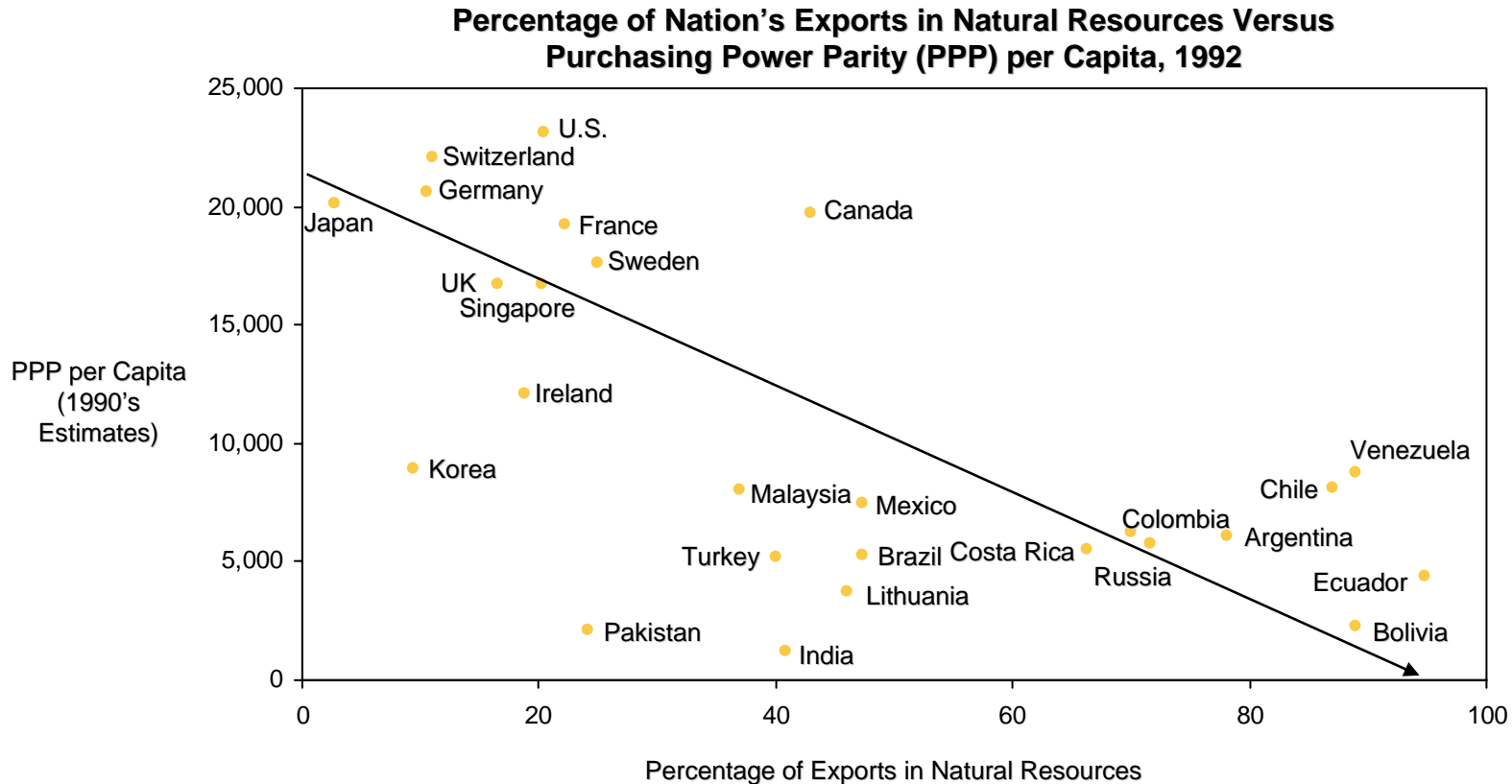
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Overview of the ACP

Relationship between Natural Resource Exports and Wealth



Countries unable to reduce natural resource dependency have lower standards of living

Notes: Purchasing power parity is standard in this presentation as opposed to GNP because it is an estimation of exchange rate changes based on keeping prices of goods in different countries fairly similar by offsetting inflation differentials with changes in the currency exchange rates
Correlation coefficient determines the relationship between two properties, coefficients closer to 1 indicate that variations in one variable are perfectly explained by variations in the other
Arrow illustrates the -.66 Correlation between purchasing power parity and exports in natural resources

Source: UN SITC Trade Statistics Data Revision 2, World Bank, World Tables 1994